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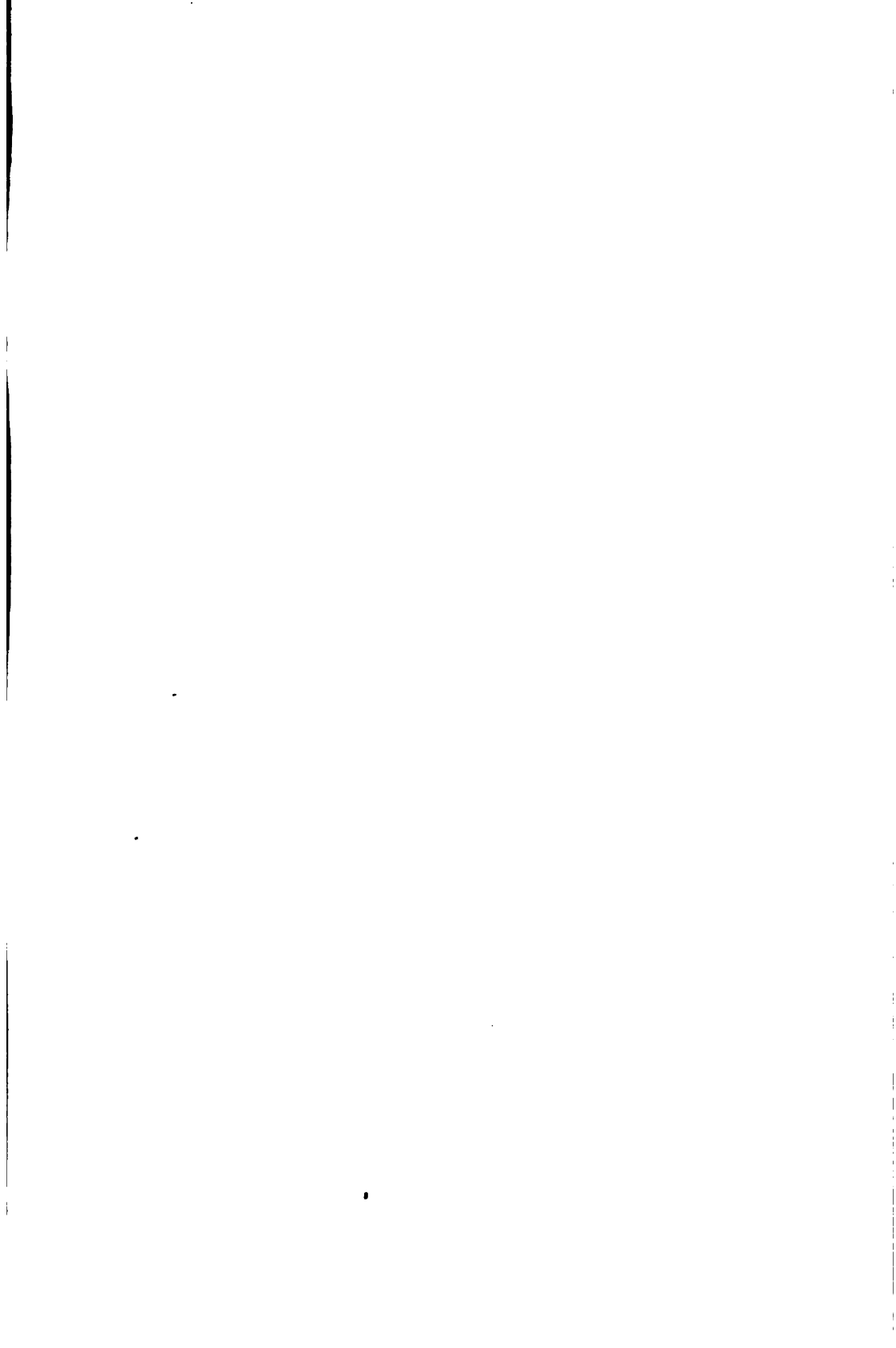
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LEWIS B. FRANKLIN, *President*
Guaranty Trust Company of New York,
New York

Stone & Webster
*6901.1916

**Proceedings of the
Fifth Annual Convention of the
Investment Bankers Association
of America**

**Including
Constitution and By-Laws,
List of Officers and Committees
and Members of the
Association**

**Held
October 2, 3 and 4, 1916
Cincinnati**



THE INVESTMENT BANKERS ASSOCIATION OF AMERICA

**Compiled by
Frederick R. Fenton
Secretary The Investment Bankers Association of America
111 West Monroe Street, Chicago
1916**

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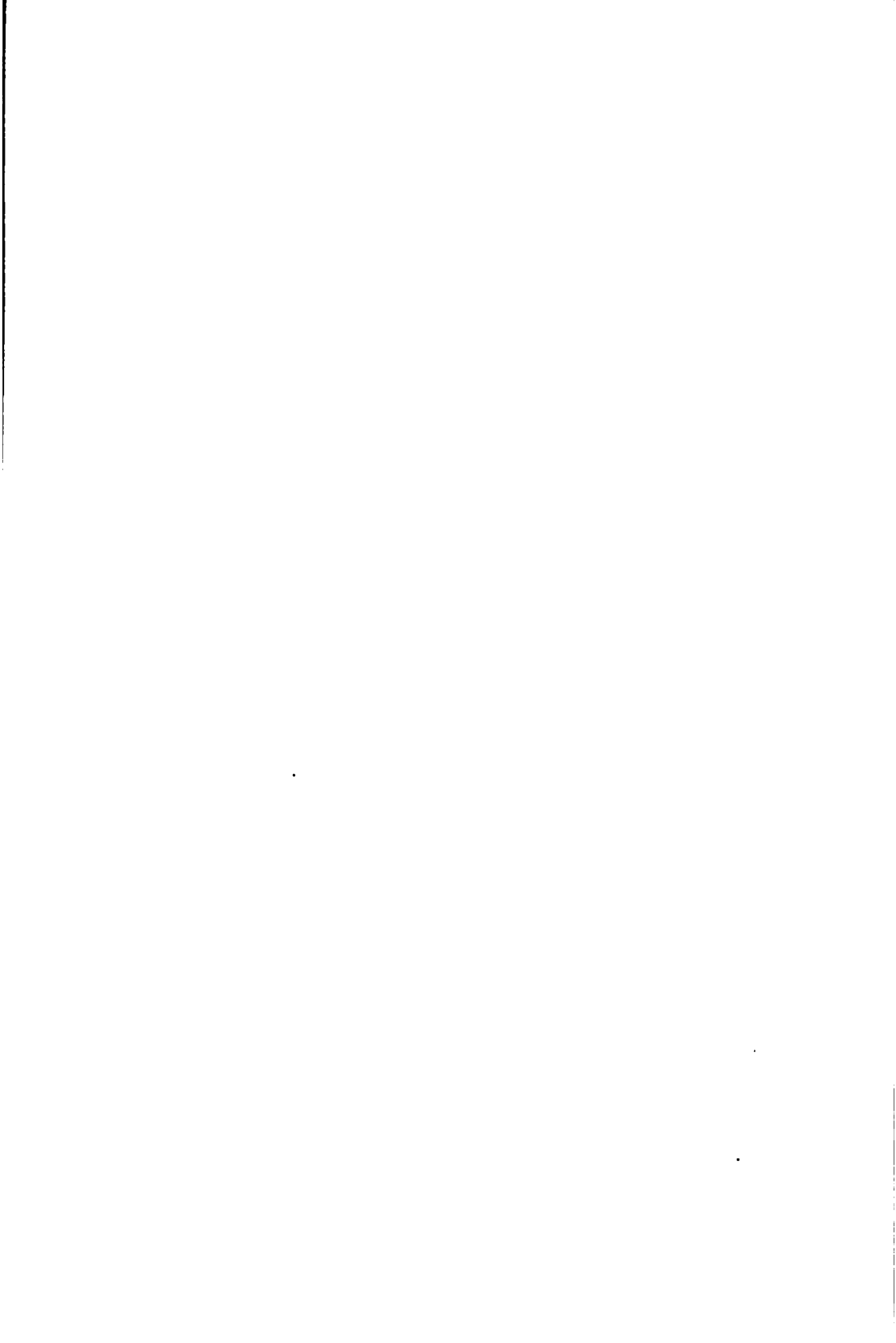
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DISCLAIMER

***Resolved:* That the Investment Bankers Association of America disclaims all responsibility and liability for opinions expressed in any address made at its conventions, or papers printed in the proceedings of such conventions, unless endorsed by special action of the Board of Governors, or the members in convention assembled."**

(Adopted by the Board of Governors, August 8, 1913.)



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AMERICA

1916-1917

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TREASURER

J. SHEPPARD SMITH **St. Louis**
Mississippi Valley Trust Company

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TERMS EXPIRING 1917

GEORGE C. CLARK, JR.	Clark, Dodge & Co.	New York
LAWRENCE CHAMBERLAIN	Hemphill, White & Chamberlain	New York
CHARLES W. MCNEAR	C. W. McNear & Co.	Chicago
GEORGE W. KENDRICK III	E. W. Clark & Co.	Philadelphia
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JOHN E. OLDRAM	Merrill, Oldham & Co.	Boston
WARREN S. HAYDEN	Hayden, Miller & Co.	Cleveland
CHARLES H. GILMAN	Charles H. Gilman & Co.	Portland, Me.

TERMS EXPIRING 1918

RICHARD L. MORRIS	Kean, Taylor & Co.	New York
GEORGE W. HODGES	Remick, Hodges & Co.	New York
GEORGE H. TAYLOR	E. H. Rollins & Sons	Chicago
H. L. STUART	Halsey, Stuart & Co.	Chicago
DAVID A. EDGAR	Edgar, Ricker & Co.	Milwaukee
REAMY EUGENE FIELD	Field, Richards & Co.	Cincinnati
CHARLES L. STACY	Stacy & Braun	Toledo
LYNN H. DINKINS	Interstate Trust & Banking Co.	New Orleans

TERMS EXPIRING 1919

STACY C. RICHMOND	Winslow, Lanier & Co.	New York
HOWARD F. BEEBE	Harris, Forbes & Co.	New York
LEWIS H. PARSONS	Graham & Co.	Philadelphia
JOHN W. HALLOWELL	Stone & Webster	Boston
WILLIAM G. LERCHEN	Watling, Lerchen & Co.	Detroit
DANIEL K. DRAKE	Perrin, Drake & Riley, Inc.	Los Angeles
JAMES N. WRIGHT	James N. Wright & Co.	Denver
EDWIN WHITE	White, Grubbs & Co.	St. Paul

GEORGE B. CALDWELL	Ex-President	New York
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Fifth Annual Convention of the Investment Bankers Association of America

October 2, 1916

The President: The Convention will please come to order. Delegates will please rise and give attention while the Rev. John F. Herget, Pastor of the Baptist Church, pronounces the Invocation.

INVOCATION

Rev. John F. Herget (Pastor, Ninth Street Baptist Church, Cincinnati): Our Father, Who art in Heaven, in Whom we live and move, and have our being, we thank Thee for all the beauty and the glory of this day; for the joy of living; for the privilege of work; for the talents which Thou hast entrusted to us as men. Give unto us, we beseech Thee, a sense of our responsibility unto Thee, that as Thy stewards we may administer the trust which Thou hast committed to us, as in Thy sight, and in the spirit of consideration for others.

Help us to know that manhood is infinitely worth more than money; and may money be our servant, and not our master.

Grant, Our Father, that a spirit of righteousness may underlie all our business transactions, and that we may realize that a man's life consisteth not in the abundance of the things which he possesseth, but in that which he is and does by Thy grace.

Let Thy blessings rest upon all the sessions of this Convention, that Thy spirit may guide the affairs of the Convention; that the ends of righteousness and integrity in commercial life, as well as in all other phases of our life, may be served; and we ask it in the name of Jesus,— AMEN.

The President: It is our privilege to have with us this morning the Hon. George Puchta, Mayor of the City of Cincinnati, who will extend to us on behalf of the City its welcome. Mayor Puchta, gentlemen. (Applause.)

ADDRESS OF WELCOME

HON. GEORGE PUCHTA
Mayor of Cincinnati

MR. CHAIRMAN AND GENTLEMEN OF THE CONVENTION:

Thinking perhaps that this convention was not all serious business, I am going to tell you a little story which occurred to me this morning on my way down from my home, and it may be interesting to you.

A German and an Irishman were discussing the great inventions. The German said, "Well, I tell you, I think that fellow what invented the locomotive, he made a great invention."

The Irishman said, "I think that fellow Edison who invented the telephone, he invented one of the great inventions."

Another German chipped in, and said, "Say, don't you think that the fellow who invented interest invented something big? He was no slouch." (Laughter.)

Now, gentlemen, I know you are interested in the latter.

But, gentlemen, it is befitting, indeed, that The Investment Bankers Association of America should honor Cincinnati by holding their convention here at this time, for the reason that I know that the members of your organization, and the citizens of this city, will share mutually the benefits and the enjoyments of this convention.

Our population, our wealth, our area, may not be as extensive as a few of the cities of this country that some of you represent, but we Cincinnatians are proud of the fact that we are Cincinnatians; that we have a city centrally located, surrounded with natural beauties, within easy reach of boundless natural resources, diversified manufacturing interests, and we have an enterprising citizenship, ever ready and liberal, for the public good.

Cincinnati is a safe and sound proposition, to be borne in mind by gentlemen in your line of business. Our securities have never sold for less than par, and being considered sacred obligations have always been paid. Our banking and business interests are such that we can stand close investigation, and we invite thorough acquaintance.

As a city, we claim *originality* as one of our best assets.

You will remember that not so many years ago, Cincinnati, unaided, built the Cincinnati Southern Railroad, extending from this city to Chattanooga, and to-day owns this valuable piece of property, leased under most favorable conditions.

We also are in a class of our own, on account of the fact that we have a most successful Municipal University as a part of our Public School System, where our children can secure a college education at home.

As a city we have but recently voted a bond issue of millions, for interurban entrance and a rapid transit system, and other improvements.

Our railroads are considering at this very time vast changes in freight and passenger terminals.

Business activities, in the many great lines with which our city is favored and noted, stamp this community as a most successful business center, and as such we ask your acquaintance; not a casual acquaintance, but intimate, so intimate that no matter how large or how small the undertaking, you bankers will want the business.

The business men of these times are divided into two classes: the borrowers, and the lenders, but they all come to you to do business.

I consider the business of the Banker as one of the most sacred of trusts, and all honor and esteem should be rendered the man who successfully carries on the banking business.

Confidence, foresight, caution, study of character, the possession of character, and a score of other qualifications all go to make the Financier. But good, common sense has to be had in larger quantities than any other characteristic, and knowing that the Cincinnati members of your fraternity possess all of these attributes, this has gone a long way toward keeping Cincinnati well to the fore.

We believe, as you gentlemen of large financial interests look into the condition of things here in Cincinnati, that you will find no better place for investments, no safer channels for the building of big business, than this enterprising community can offer.

We lead the world in the manufacture of many lines, and we would like to have it said that we lead the world in hospitality, but we can assure you that none could extend a more heartfelt,

honest, cordial welcome than do we Cincinnatians to you, the bankers of America.

May your stay be most agreeable; may your deliberations be instructive and profitable, and when you depart for your homes may you take with you pleasant memories of your short stay in Cincinnati, the Queen City of the West.

WELCOME to our City; to our homes; to our hearts.

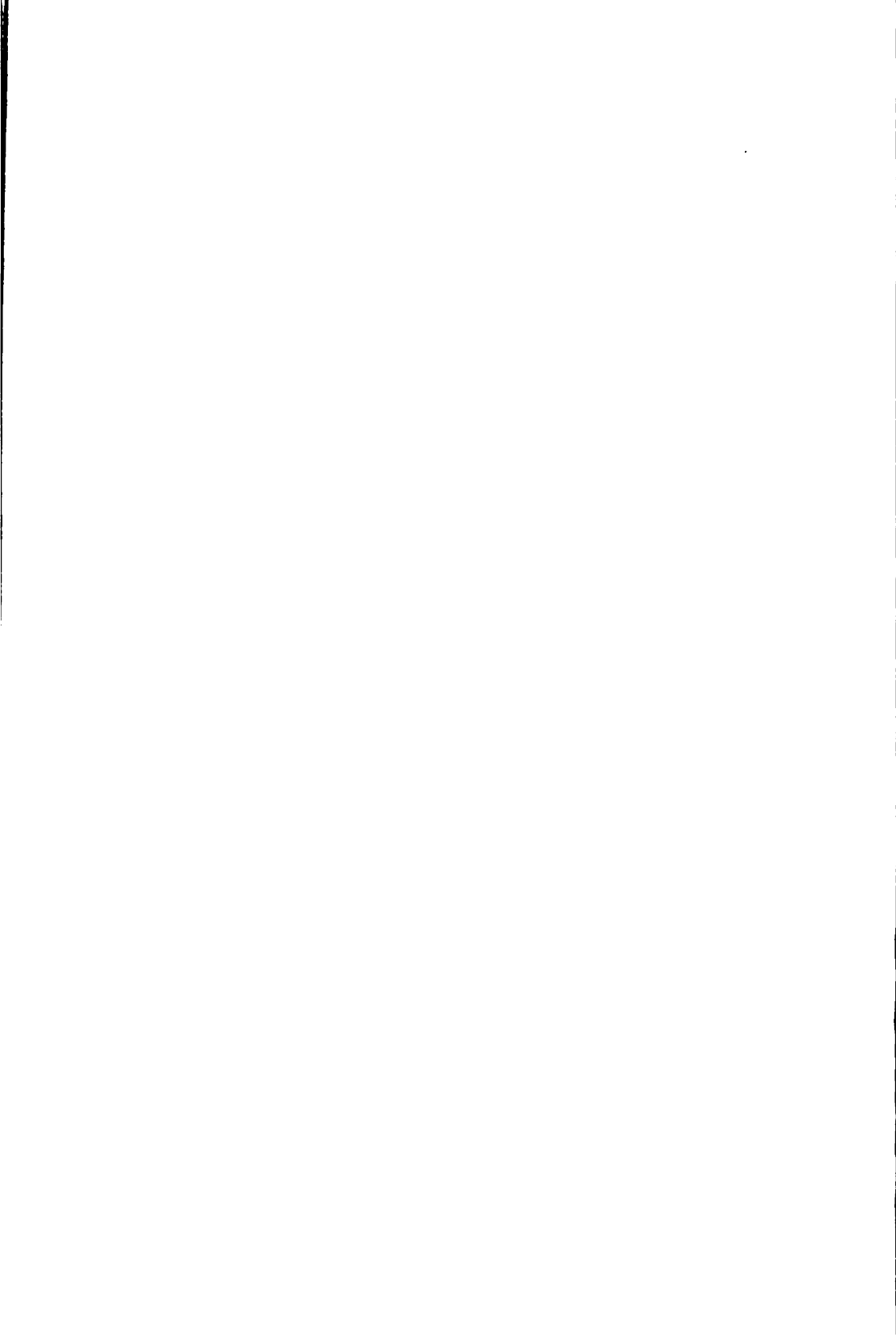
We appreciate your coming among us, and it is our earnest wish that you return to us again at no far distant day.

Gentlemen, I thank you. (Prolonged applause.)

The President: As the Delegates have all registered with the Secretary's Office, we will dispense with the Roll Call.



ALLEN G. HOYT, *Vice-President*
The National City Company, New York City



ANNUAL ADDRESS OF THE PRESIDENT

LEWIS B. FRANKLIN

Vice President, Guaranty Trust Company of New York, New York

MEMBERS OF THE INVESTMENT BANKERS ASSOCIATION:

It is with the utmost pleasure that I welcome you to this our Fifth Annual Convention, and at the same time express to our friends of the City of Cincinnati our appreciation of their hospitality. We are glad to be here and I trust that when we leave they will be sorry to have us go.

During the past year our membership has shown a healthy increase, there now being a main office membership of 363 against 340 on September 30th of last year. It is of course recognized that with our restrictions as to new members we can not look for any rapid increase in our numbers, as we now have enrolled a large percentage of those eligible, but it is very important that a strong effort be made to enlist the small minority who have not yet joined our ranks.

As the Treasurer will advise you, we close the fiscal year with all bills paid and a good working balance in the Treasury, and yet your Board of Governors have not hesitated to make liberal appropriations for necessary work.

It has been very gratifying to notice from year to year steady progress on the part of the Board and the various Committees in the elimination of discussion on non-essential matters and a concentration on work of real importance. The Association has "found itself" as Kipling says; the several parts of the organization are working in harmony; our policies are in a large measure determined and our forces concentrated. These forces consist of money, experience and brains, of which the least important is money. Our chief difficulty has been in utilizing any large proportion of the experience and brains represented in our membership. We want volunteers for active work on our Committees; we want the burden of Committee work to be borne by all the members and not by the Chairman alone; and we want the active interest and support of each and every member.

POLICIES

I have spoken of our policies. What should they be? In the first place it seems to me that our work must not be selfish. We are not organized to devise means whereby the material wealth of our members may be increased, although that may well be one of the results of intelligent effort on our part, but we are here to help in solving some of the many and complex problems that now confront this country of ours; not social problems, not *all* economic problems, but only those that directly affect the investment business and the investor. We must not spend too much time upon efforts the results of which must necessarily be temporary, but we must concentrate our chief attention upon work which is basic, sound and far reaching; work which if successful will not be forgotten overnight, but the result of which will endure for generations. For instance, it has been possible for us in many cases to prevent unwise legislation by a direct appeal to the intelligence of the legislator, but that does not as a rule prevent the same unwise legislation being attempted at other times or in other places. While we are busy on such temporary expedients we ought to lay the foundations for permanent improvement by an intelligent campaign for the education of the people at large. It is axiomatic that little or no legislation is enacted contrary to the known will of a majority of the people or, indeed, contrary to any very large minority and the basic, enduring work must then be done with the people themselves. We are reserving time at a later session for open discussion of methods whereby such campaigns may be carried on.

COMMISSION REGULATION

One of the most serious problems in which we are deeply interested and upon which the public needs educating is the relation of the State and Federal Governments to our great transportation systems. The regulation of Public Utility Corporations by State Commissions, now in effect to a greater or less extent in thirty-three states, has been accepted generally as wise and proper by the banker, the operator and the public. The reason for this approval by all classes is to be found in the fact that for the most part these State Commissions have recognized the sound economic principle that regulated monopoly provides the

best service to the public at the lowest rates commensurate with a fair return on the investment. The questions as to what constitutes a fair return and on what basis the value of the investment should be computed are still under discussion, but progress is being made from year to year in bringing the various commissions into harmony with each other and with the operators and bankers. As a matter of fact the question of a fair return is not a theoretical question, but a very practical one. In the last analysis, a fair return *must* be one that will attract capital in sufficient quantities to provide adequate service, and this necessary return will fluctuate according to the price of capital for that class of undertaking in the market places of the world.

THE RAILROAD PROBLEM

As regulated monopoly has become the practice in our Municipalities, so regulated competition has been instituted in the relations of the Federal Government with our interstate transportation system. Federal regulation of railroad rates, both intra and interstate is, I believe, sound in principle and beneficent in practice, but it can never be practical to have our great transcontinental systems subject to one master as a whole and to forty-eight masters as to their several parts. The time is coming, and I trust is not far off, when the regulation of our Railroads will be taken entirely out of the hands of the several state legislatures and placed where it belongs — in the hands of the Interstate Commerce Commission. Some of our legal friends may tell us that this cannot be done; that the sovereign power of the states granted them by the Constitution cannot be taken away; that they must continue to supervise and control the Corporations which they have created. Sovereign power was *not* given to each state without *exception*, but certain important functions were reserved *solely* for the Federal Government, including the control of commerce between the several states and the establishment of post roads.

CONSTITUTIONAL AUTHORITY

It must be remembered that at the time of the adoption of the Constitution there was in the mind of none of its framers any conception of our modern systems of railroads, of telegraphs, of telephones or of steamships. Interstate travel was by post roads

and over the establishment of such means of communication Congress was given power. This power was not limited to interstate roads, but was general in character, thereby indicating that *intra* state transportation is only a part of interstate traffic, and that control should not be divided but centered in the Federal Government. I firmly believe that had present conditions of transportation existed at that time, that sole power of regulation of all transportation would have been delegated to the Federal Government, and sincerely hope that this can be shortly brought about by Federal legislation.

CONSTRUCTION VS DESTRUCTION

If it is proper for the Government to establish railroad rates and therefore in a large degree determine the gross revenue of the railroad corporations, is it not also proper that the same power should exercise supervision over such expenses as are subject to control? The trouble with the present system of regulation is that it is founded on the supposition that the railroad corporations are malign creatures of a corrupt money power and therefore repressive measures are the only ones needed. While there may in the past have been some warrant for this idea, the time has come when our legislators must awake to an appreciation of the fact that the ownership of the railroads is in the hands of a great mass of the people and to the necessity of a constructive policy instead of a destructive policy. What a change in the attitude of the Government since the days of the late sixties, when Congress was busily granting aid to the trans-continental lines reaching out across the western prairies! We do not want aid of that kind now, but we do want justice. We want intelligent action on these problems. We do not want legislation by compulsion — compulsion from the railroads, from the shipper or from labor, but a fair decision based on knowledge, not on supposition, on equity, and not on political expedience.

FEDERAL INCORPORATION

It has seemed to many of those who have studied this question that compulsory Federal incorporation of all railroad corporations doing an interstate business is the first step toward the solution of the problem. Our transportation systems are not less important

to the country at large than is our National Banking System and should even more logically come under Federal control. A Federal Railroad Board with Regional Boards constituted in a way similar to the Federal Reserve Board, with Federal incorporation, would, in my opinion, provide for our railroad systems stability, freedom from inexpert regulation and release from outside domination. Such intelligent supervision would lead to a restoration of confidence in railroad securities and thereby enable the companies to borrow money upon reasonable terms to provide funds with which to construct improvements necessary to good service and extensions whereby new territory can be opened up.

It is not alone to those of our members who are distributors of railroad securities that this situation is of interest. The railroad problem is the most important and at this time happens to be the most prominent example of the much larger question of the relation of Government to Business, in which question every dealer in corporation securities is intensely interested. A happy solution of the railroad problem means a long step in the direction of a better understanding of the proper relationship of corporate enterprise to the State and Federal Governments, particularly if the solution is brought about through the education of the general public to a realization of their dependence upon business prosperity. Even those of us who confine our dealings to municipal bonds cannot afford to overlook this wider aspect and do all we can to assist in this work of education.

It may be argued that this problem is too difficult for us to undertake, but I say to you, that if this Association is not willing to tackle a problem upon the proper solution of which depends the very existence of that industry upon which all other industries depend, then it is not worthy of existence. Our past record leads me to believe that we can make our weight felt and deeply felt in State Legislatures, in Washington and in the country at large.

OUR OPPORTUNITY

I am convinced, at this period when the former channels of trade are for a time at least abandoned, the money centers of the old world have relinquished to us their ancient prestige and our young country occupies the dominant position in world finance, that the Investment Bankers Association has a wonderful

opportunity before it; an opportunity to help in molding public opinion to the end that our Chief Executive, our Congress, our bankers and our merchants may so co-operate in wise legislation, in constructive finance and courageous expansion of trade that these United States of America may maintain that proud position of leadership which is now theirs. (Applause.)

The President: Next is the Secretary's Report.

FIFTH ANNUAL REPORT OF THE SECRETARY

Mr. President and Gentlemen of the Convention: I respectfully submit the Fifth Annual Report of the Secretary's Office of the Investment Bankers Association of America, for the fiscal year ended August 31, 1916.

For the details of the numerous activities of the Association I wish to direct your attention to the reports of the standing and special committees to be presented at this convention.

BOARD OF GOVERNORS

Each year we see a large increase in the membership of our Association, and with it a corresponding growth in the attendance at our annual meetings. As our membership has increased, so have the activities of the Association extended, and a greater burden has fallen upon the Officers and Board of Governors in their deliberations and discussions of matters affecting the general welfare of the investment bankers of this country.

The Board of Governors during the last year have held quarterly meetings in Denver, New York, Baltimore and Kansas City. The meetings have invariably been well attended and the absentees few.

MEMBERS

During the past year our membership has increased until we have reached the highwater mark. On September 1, 1915, we had 516 members, divided as follows: 127 Class "A", 177 Class "B", 36 Class "C", and 176 Branch Offices. We have made rapid progress in the last year toward extending our membership over a greater area geographically. The year closing August 31, 1916, saw us with new members from New York, Chicago, San Antonio, St. Louis, Pittsburgh, San Francisco, Atlanta, Toronto, Saskatoon, Boston, Providence, Oklahoma City, Cincinnati, Baltimore, Montreal, Detroit, Los Angeles, Scranton, Hartford, Minneapolis, Milwaukee, Dayton and Youngstown, Ohio.

When we consider that new members have been secured from these various centers we come to realize that the Association is rapidly becoming one of the constructive forces in our country. The Association has become so well known to the dealers that when

one enters a bond house and does not see the membership sign of the Association it is a matter of some surprise. The field for extending the membership is somewhat limited owing to the very stringent qualifications necessary.

On August 31, 1916, we show 140 Class "A", 182 Class "B", 39 Class "C" and 184 Branch Offices — a total of 351 Main, and 184 Branch Office members, a net gain of 11 Main and 8 Branch Offices.

INCOME

The only income of the Association is received from annual dues, initiation fees and interest on bank balances.

At the beginning of business, September 1, 1915, we had a bank balance of \$1,903.98; the annual dues for the fiscal year of 1915-16 amounted to \$30,900.00; initiation fees, \$3,000.00; interest \$358.41; miscellaneous, \$10.00 — a total available of \$35,972.39. The operating expenses of the past year amounted to \$27,386.46, leaving a balance at the close of the year (August 31, 1916) of \$8,785.93. As against this balance there were no bills outstanding of any character.

ROUTINE WORK

Taking up the routine side of the office I submit a tabulation of the mail passing through the Secretary's Office during the past year:

<i>Outgoing Mail</i>	
First Class.....	15,000
Proceedings.....	1,500
Bound Bulletins.....	800
Miscellaneous.....	300
Bulletins.....	<u>14,000</u>
Total Outgoing Mail.....	31,600
<i>Incoming Mail</i>	
First Class.....	17,000
Books, Pamphlets, etc.....	250
Daily Papers.....	700
Weekly Papers.....	800
Monthly Papers.....	<u>250</u>
Total Incoming Mail.....	18,900
Total Mail handled.....	<u>50,500</u>

Under the head of Routine Work might be mentioned the collection of annual dues. This is a part of the regular duties of the Secretary's Office, and was carried out without the loss of a single member through non-payment of dues.

In addition to the foregoing the Secretary's Office carries on the general correspondence of the Association, keeps all books of account, compiles the annual proceedings, issues the "I. B. A. of A. Bulletin," and assists the committees in the collection of statistical data.

One of the largest tasks we assumed was on behalf of the Committee on Reclamation Bonds. In this instance, approximately 3,000 letters were sent to state and county officials collecting statistical information on drainage bonds.

The Committee on Railroad Bonds delegated to the Secretary's Office the work of making a canvass of our members. Over 600 letters were written in the collection of this data.

Other committees, among them the Educational and Publicity, have worked with the Secretary's Office in carrying forward work which they had under progress.

BULLETIN SERVICE

I believe in the extension of our Bulletin service and the enlarging of its scope. During the coming year it will be the aim of the Secretary's Office to bring this branch of our service to a greater degree of usefulness.

It seems to me that there is no better way for the Association to keep its name before the public, and, therefore, advise the public of the constructive work we are now carrying forward, than by giving the "I. B. A. of A. Bulletin," the widest circulation.

We have at the present time a circulation of approximately 1500. Of this number, 600 go to members, while the remaining 900 are divided among the public service commissions of the several states, universities, legislative reference bureaus and public libraries. Perhaps the most numerous requests filed for the bulletin emanate from the legislative reference bureaus and the universities throughout the country.

We have always made it a point to give special attention to the legislative reference bureaus. It is from this source that by far the

greater number of bills come, which are introduced in the State Legislatures. They are a source of information to which the state legislators refer when they have any matter under consideration which they think should be regulated by law.

As to the universities: I have carried on a large amount of correspondence with them, and have made it a point to inquire what particular use was made of the extra Bulletins required. Without going into the matter too much in detail, I found the major number were used to form the basis of lectures, and were distributed for research purposes.

Therefore, we should increase in every possible manner the efficiency of the Bulletin Service and the circulation, never losing sight of our past high standards.

The compilation of our annual proceedings entails a large amount of work each year. The Association has now issued four volumes representing its complete history. In addition to distributing the proceedings to our members they are also placed in the hands of public service commissions, universities and other public bodies.

The Chicago Public Library informs us that the proceedings and publications of our Association are the only complete and authentic history of blue sky legislation in existence and that they are in great demand.

NEW HEADQUARTERS

Shortly after our return from the Denver convention the Secretary's Office moved into larger quarters. It was three years from the time we moved into our old headquarters until we found it necessary to leave. I think that this is one of the best evidences of the growth of the Association. Our filing space had become entirely inadequate, and the large volume of mail that we handle in the course of a year made it necessary to add a room in which to carry on this part of the work.

I should like to have the members of the Association who do not have branch offices in Chicago, and all others, as a matter of fact, to bear in mind that we have headquarters with ample facilities for conferences, where mail may be sent, through us hotel reservations made — in fact, we stand ready to serve the members in every way possible.

CONCLUSION

I wish to thank the officers, members of the Board of Governors, General Counsel and members of the committees for their hearty co-operation throughout the year. I would be remiss in my duty if I did not mention the Press who have always treated us so liberally.

Again we are under obligations to Mr. Harry Rascovar of the New York News Bureau and their Western Representative, Mr. W. N. Record of Chicago, who have not only taken care of us on the publication of news items over their tickers, but one of them has been present at the Board of Governors meetings to act in the capacity of press agent. I believe I speak the sentiment of the gentlemen of the Board of Governors when I say that their services have been of great value and deeply appreciated.

Respectfully submitted,

FREDERICK R. FENTON, *Secretary.*

The President: I call for the Report of the Treasurer, Mr. J. Herndon Smith. Mr. Smith was called out of town last night and the Secretary will read it.

The Secretary (reading):

FIFTH ANNUAL REPORT OF TREASURER

Balance Cash in Bank, August 31, 1915 \$1,703.98

RECEIPTS

Dues collected for year ending August 31, 1916.....	\$30,900.00	
Initiation Fees.....	3,000.00	
Interest.....	358.41	
Miscellaneous.....	10.00	34,268.41

Total Receipts \$35,972.39

DISBURSEMENTS

Total amount of checks drawn August 31, 1915 to August 31, 1916.. \$27,386.46

Balance 8,585.93

Balance at banks, August 31, 1916:

Mercantile Trust Company.....	\$10,146.73	
Mississippi Valley Trust Company.....	2,470.96	12,617.69

Less checks issued and not presented:

No. 1093.....	\$ 83.83	
No. 1094.....	3,621.97	
No. 1095.....	49.00	
No. 1096.....	159.00	
No. 1097.....	16.65	
No. 1098.....	17.50	
No. 1099.....	84.31	4,031.76

Balance \$ 8,585.93

NOTE.—To the above Balance there should be added Cash at Secretary's Office, namely \$200, making total of..... \$8,785.93

Above mentioned \$200 was not included in Balance originally handed over to Treasurer, August 31, 1914.

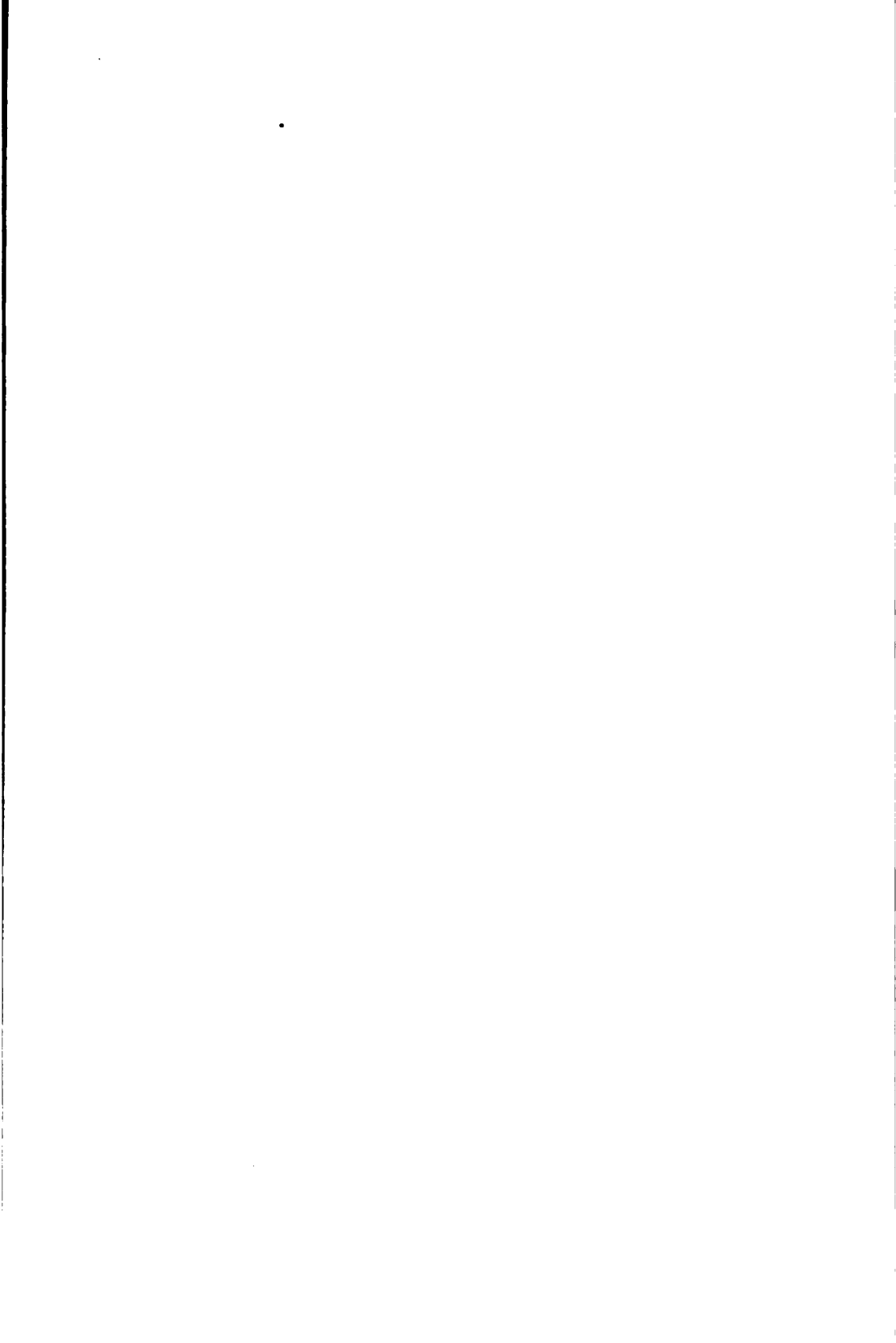
COMPARATIVE STATEMENT OF CASH RECEIVED AND EXPENDED

For the Fiscal Years Ending August 31, 1915 and 1916

	RECEIPTS		Increase or Decrease
	1915	1916	
Dues.....	\$29,100.00	\$30,900.00	\$1,800.00
Initiation Fees.....	2,200.00	3,000.00	800.00
Interest.....	172.46	358.41	185.95
Miscellaneous.....	.....	10.00	10.00
	\$31,472.46	\$34,268.41	\$2,795.95
Balance, Cash in Bank at beginning of year..	542.32	1,703.98	1,165.66
	\$32,014.78	\$35,972.39	\$3,957.61



JOHN E. BLUNT, JR., *Vice-President*
Merchants Loan & Trust Company, Chicago



INVESTMENT BANKERS ASSOCIATION OF AMERICA 29

DISBURSEMENTS

Checks drawn.....	30,310.80	27,336.46	2,924.34
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BALANCE

Cash in bank	1,703.98	8,585.93	6,871.95
	\$32,013.78	\$35,972.39	\$3,957.61

STATEMENT OF RECEIPTS AND DISBURSEMENTS

September 1, 1916, to September 23, 1916

Balance August 31, 1916.....		\$3,585.93	
Receipts, to close of business, September 23, 1916:			
Dues.....	\$2,150.00		
Initiation Fees.....	1,300.00		
Interest.....	17.60	3,467.60	
		\$12,053.53	
Disbursements:			
Checks 1100 to 1113.....		998.42	
		\$11,055.11	
Balance cash at banks:			
Mercantile Trust Company.....	\$3,584.15		
Mississippi Valley Trust Company (Unchanged).....	2,470.96	\$11,055.11	

The Secretary: The Treasurer's Report covers details which will be sent to the members, but I would add that our books have been verified by Andersen, DeLany & Co., of Chicago, and have proved to be correct. The Finance Committee, Mr. President, will cover the balance.

The President: If there is no objection the report of the Treasurer will be received and placed on file. There being none it will be so ordered.

Now, the Report of the Finance Committee, Mr. Taylor.

REPORT OF FINANCE COMMITTEE

Your Finance Committee has held monthly meetings and approved all expenditures, being careful in each case that they were well within the appropriations, as voted by the Board of Governors. The Association is now in a strong position financially as will be seen from the report of Messrs. Andersen, DeLany & Co., certified public accountants, who have made an audit of the books of account of the Association. Their audit is made a part of this report.

Your Treasurer's Report will show a balance at the close of the fiscal year (August 31, 1916) of \$8,585.93, and \$200.00 in the Petty Cash Fund, a total of \$8,785.93, as against \$1,903.98 on the corresponding date last year. The income during the past fiscal year has amounted to \$34,268.41 derived from the following sources:

Annual dues.....	\$30,900.00
Initiation fees.....	3,000.00
Interest on daily bank balances.....	358.41
Miscellaneous.....	10.00

Your Committee in passing wishes to make mention of the valuable services of our Secretary, Mr. Fenton, and his assistant, Mr. Schray, and the other employes in the office of the Secretary. Respectfully submitted,

GEORGE H. TAYLOR, *Chairman.*

TO THE BOARD OF GOVERNORS,

Chicago, September 21, 1916.

INVESTMENT BANKERS ASSOCIATION OF AMERICA,

CHICAGO, ILLINOIS.

ANNUAL AUDIT

Dear Sirs: We have completed the usual annual audit of the books and accounts of the Investment Bankers Association of America for the fiscal year ending August 31, 1916, and we have prepared the following financial statements: Exhibit I — Comparative Statement of Cash Receipts and Disbursements for the two years ending August 31, 1915 and 1916

Exhibit II — Balance Sheet at August 31, 1916

CASH RECEIPTS AND DISBURSEMENTS

A condensed statement of the cash receipts and disbursements for the fiscal years ending August 31, 1915 and 1916 drawn up in comparative form is submitted below:

RECEIPTS:	Particulars	Fiscal year ending August 31		Increase or Decrease
		1915	1916	Decrease
	Annual Dues.....	\$29,100.00	\$30,900.00	\$1,800.00
	Initiation Fees.....	2,200.00	3,000.00	800.00
	Interest on Daily Bank Balances.....	172.46	358.41	185.95
	Overpayment of Dues — (Bond and Goodwin).....		10.00	10.00
	Total Receipts.....	\$31,472.46	\$34,268.41	\$2,795.95
	Cash on Hand and in Bank at Beginning..	742.32	1,903.98	1,161.66
		<u>\$32,214.78</u>	<u>\$36,172.39</u>	<u>\$3,957.61</u>

DISBURSEMENTS:

General Counsel.....	\$10,813.64	\$10,223.19	\$ 585.45*
Salaries.....	4,612.10	5,411.57	799.47
Rent.....	1,200.00	1,750.00	550.00
Publication of Year Book.....	1,398.00	1,645.30	247.30
Bulletin Service.....	2,059.70	1,241.35	818.35*
Convention Expenses.....	1,096.12	1,122.71	26.59
Printing, Stationery and Postage.....	1,731.30	1,202.84	528.46*
Miscellaneous.....	1,339.86	1,655.97	316.11
Refund of Overpayment of Dues — (Bond and Goodwin).....		10.00	10.00
Committees.....	6,060.08	3,118.53	2,941.55*
Total Disbursements.....	\$30,310.80	\$27,386.46	\$2,924.34*
Cash on Hand and in Bank at End of Year	1,903.98	8,785.93	6,881.95
	<u>\$32,214.78</u>	<u>\$36,172.39</u>	<u>\$3,957.61</u>

The receipts from dues and initiation fees were verified and satisfactorily reconciled with the records of membership. We inspected adequate vouchers, approved by the Secretary and the Auditing Committee, for all disbursements; verified the cash balances by actual count and certificates furnished to us by the depository banks and traced the cash receipts into the banks for the entire year.

In a review of the financial position of the Association for the year it is interesting to note that the cash balances at August 31, 1916, totaled \$6,881.95 while at the corresponding date in the previous year they amounted to \$1,799.37 (after deducting liabilities of \$104.61) or an improvement in the cash position of \$5,082.58.

FURNITURE AND FIXTURES — \$1,767.34

New furniture and office equipment amounting to \$449.02 was purchased during the year on account of the removal of the Secretary's office to larger quarters. This expenditure, together with the balance of \$1,318.32 at the beginning of the year, makes up the amount of \$1,767.34 as above.

MEMBERSHIP

The following statement shows the membership at the beginning of the fiscal year with the changes during the year:

	<i>Class A</i>	<i>Class B</i>	<i>Class C</i>	<i>Total</i>
Total Members at August 31, 1915.....	127	177	36	340
New Members Obtained During Year.....	17	9	4	30
	144	186	40	370
Members resigned.....	4	5	..	9
	140	181	40	361
Changes in Classification (net).....	...	1	1	...
Total Members at August 31, 1916.....	140	182	39	361

*Decrease.

There are no outstanding accounts at August 31, 1916, either for dues owing or unpaid liabilities.

We desire to express our appreciation for the courtesies extended to our representative while engaged upon the audit.

Very truly yours,

ANDERSEN, DE LANY & Co.

Certified Public Accountants.

COMPARATIVE STATEMENT OF CASH RECEIPTS AND DIS-
BURSEMENTS FOR THE FISCAL YEARS ENDING
AUGUST 31, 1915 AND 1916

<i>Particulars</i>	<i>1915</i>	<i>1916</i>	<i>Increase or Decrease</i>
RECEIPTS:			
Annual Dues.....	\$29,100.00	\$30,900.00	\$1,800.00
Initiation Fees.....	2,200.00	3,000.00	800.00
Interest on Daily Bank Balances.....	172.46	358.41	185.95
Overpayment of Dues — (Bond and Goodwin — Refunded).....	.....	10.00	10.00
	\$31,472.46	\$34,268.41	\$2,795.95
Balance — Cash on Hand and in Bank			
Beginning of Year.....	742.32	1,903.98	1,161.66
	\$32,214.78	\$36,172.39	\$3,957.61
DISBURSEMENTS:			
General Counsel.....	\$10,813.64	\$10,228.19	\$585.45*
Salaries —			
Secretary's Office.....	4,562.10	5,411.57	849.47
Treasurer's Office.....	50.00	.....	50.00*
Rent.....	1,200.00	1,750.00	550.00
Furniture and Fixtures.....	24.50	449.02	424.52
Printing, Stationery and Postage.....	1,731.30	1,202.84	528.46*
Board of Governors (Traveling Expenses)..	416.70	395.75	20.96*
Telephone and Telegraph.....	359.16	336.70	22.46*
Convention Expenses.....	1,096.12	1,122.71	26.59
Publication of Year Book.....	1,398.00	1,645.30	247.30
Bulletin Service.....	2,059.70	1,241.35	818.35*
Auditing.....	75.00	75.00	.....
Sundries.....	464.50	399.50	65.00*
Refund of Overpayment of Dues — (Bond and Goodwin).....	.....	10.00	10.00

*Decrease.

Committees —			
Legislative, "Blue Sky".....	3,490.50	.....	3,490.50*
Legislative, General.....	654.25	57.00	597.25*
Foreign Relations.....	321.82	853.63	531.81
Municipal Bond.....	183.75	1,585.87	1,397.12
Publicity.....	310.00	33.00	277.00*
Railroad Bonds and Equipment Notes..	547.50	23.50	524.00*
Taxation.....	547.26	35.00	512.26*
Reclamation.....	.....	232.45	232.45
Income Tax.....	.....	158.08	158.08
Counsel — W. H. Lyon.....	.....	140.00	140.00
			<hr/>
	\$30,310.80	\$27,336.46	\$2,924.34*
Balance — Cash in Bank and on Hand — in			
Bank.....	1,703.98	8,585.93	6,881.95
Petty Cash Fund (Secretary's Office)....	200.00	200.00	.....
			<hr/>
	\$32,214.78	\$36,172.39	\$3,957.61
			<hr/> <hr/>

BALANCE SHEET AUGUST 31, 1916

ASSETS

Furniture and Fixtures (at Cost).....		\$1,767.34
Cash:		
In Bank.....	\$8,585.93	
Petty Cash Fund (Secretary's Office).....	200.00	8,785.93
		<hr/>
		\$10,553.27
		<hr/> <hr/>

LIABILITIES

Accumulated Revenue:		
Balance at September 1, 1915.....		\$3,117.69
Add — Net Income for the Year Ending August 31, 1916.....		7,435.58
		<hr/>
		\$10,553.27
		<hr/> <hr/>

The President: If there is no objection, the Report of the Finance Committee will be received and ordered placed on file. Hearing none, it is so ordered.

The Chairman of the Membership Committee, Mr. H. L. Stuart, is absent, but I can only say that the report that this Committee would render has been covered by the Secretary's Report, and in addition that the work of the Membership Com-

*Decrease.

mittee has been most carefully taken care of by Mr. Stuart and his able assistants.

Next is the report of the Committee on Constitution and By-laws, of which committee Mr. Charles H. Gilman, of Portland, Me., is Chairman. I know Mr. Gilman has no report to present, as no amendments to the Constitution and By-laws have been suggested.

Next is the Report of the Committee on Foreign Relations. Before I call for that report, which will probably involve some discussion, I would ask the members to observe the rule which was so wisely put in force by my predecessor, that when they rise to speak they will kindly give their name and the name of the firm which they represent, for the benefit both of the Chair and of the Secretary who may not in each case be acquainted with the speaker. In that way the Secretary's record can be kept properly.

In the discussion we have deemed it wise to limit the time of any one speaker to five minutes. In order that you might not be embarrassed by the sound of the gavel in the middle of an oration, we endeavored to provide a five-minute sand glass. Unfortunately, our Cincinnati friends tell us that a five-minute glass boils the eggs too hard and the best we could do was a three-minute glass. But we will give you a double run of the glass for the price of one admission. (Laughter.) And if that glass is turned over more than once, it is time for you to stop; but you will not hear the gavel unless you exceed the time limit, which is two glasses. (Laughter.)

I will ask now for the report of the Committee on Foreign Relations, the Chairman of which committee is Mr. Barrett Wendell, Jr.

REPORT OF FOREIGN RELATIONS COMMITTEE

Your Committee on Foreign Relations submits the following report to the Association covering its activities for the past year.

We cannot claim that this period has resulted in great accomplishment. We make this statement not because we have shirked our duty, but because as at present organized we do not feel that this Committee occupies a field capable of much productiveness.

At the time the Investment Bankers Association was formed, the Committee on Foreign Relations was organized to promote the sale of American securities in foreign countries, and, as a part of this plan, sent to various financial centers statistical works dealing with American investments. Details of this work have been set forth in previous committee reports. It is enough to say that the Committee this year has continued this service, though it was realized that there was little or no chance of benefit coming back for some time in the future.

When it became evident that the United States would be required to finance foreign loans, owing to the shutting off of the European market, the Committee of 1914-1915, of which Mr. Bulkley was Chairman, wrote a letter to the Ministers of Finance of the principal countries of the world asking them to send to the Association statistics concerning the finances of their respective governments. We have continued this work and hardly a steamer arrives without bringing some response. These documents, when received in New York by Mr. Rosenthal, Secretary of the Foreign Relations Committee, whose work has been most untiring, are forwarded to the Secretary's office of the Association in Chicago and are there placed in your library. A list of the documents has been published from time to time in the Bulletins during the past year. The Secretary's Office reports that it has 331 books on file, practically every one of them treating of foreign finance.

At our first Committee meeting it was felt that the present method pursued in collecting information was amateurish and the material collected of little or no value. It is not complete; much of it is in a foreign language, and much of it is in a form not readily available for use by members. The Association is not equipped to work over this data, and make it serviceable. We have no translators, and we have no professional statistician trained to select from the mass of material the essential points which an investment banker would desire in order to form an opinion as to whether or not he cares to undertake a piece of business.

Your Committee is composed of representatives of firms interested in foreign finance. With the exception of the Chairman, they are all in New York. They are all men working under high pressure, but they have been glad to give of their time to attending meetings and to discussing what, if anything, could be done to make the work of this committee of some benefit.

It was suggested that each member select a country in South America and submit to the Chairman a list of the works dealing with that country, in order to make a start towards collecting complete data concerning a few governments. Several reports were submitted. Perhaps the most complete was that of Mr. Byrnes, Assistant Cashier of the National City Bank, covering Chile.

It became evident that even if we spent our money buying the reference books here mentioned, it would be a waste as they would be merely buried in the library in Chicago and of no practical service.

We then discussed the feasibility of establishing a library in New York City under the direction of an expert librarian, where the information received could be properly catalogued and worked over by a competent statistician aided by translators. It soon became evident that the expense of such an undertaking would be prohibitive.

We then thought that it might be possible to make some arrangement with the New York Public Library, by which a downtown branch might be opened where all books and material in its possession pertaining to this subject could be kept. This was found not to be feasible as the rules of the library would not permit.

Your Committee is of several minds as to whether or not investment dealers feel that the establishment of a financial library properly equipped will pay them sufficiently to subscribe to its support, as the funds at the disposal of the Committee are entirely inadequate. Some of the Committee feel that issuing houses will not care to rely on the information derived from this source, preferring to gather the data on which they form their opinions from their own research. Others of the Committee, though agreeing with this, feel that smaller dealers and banks not originating the business might well like to have some place to consult which would render them an independent opinion on the financial condition of a foreign country, state or municipality.

Your Chairman visited Dr. Pratt in Washington to see if the Government contemplated any such work, or if there were funds at the disposal of the Department of Foreign Commerce which might be used for this purpose. Dr. Pratt expressed a keen interest in this matter and said that the Government, though having no income available to undertake the establishment of a library, would cooperate to the extent of sending its publications there and helping to collect material.

About this time the suggestion was made that we visit the Commercial Museum in Philadelphia. Your Chairman went there and spent some time on the spot with Mr. Bartlett, the Chief of Foreign Trade Bureau. He is with us to-day and will outline to you just what the Museum now does and what it is prepared to do, if, in the opinion of the Association, the work is worth while.

You will hear from Mr. Bartlett what he has. His primary business has been to collect commercial data concerning foreign countries. In the process of collecting this data, he has naturally received a lot of material dealing with their finances. This is at present to him merely a side issue. You will learn that he has names of over 500,000 private concerns doing various types of business in foreign countries, together with some information concerning their credit. He has translators and is equipped to furnish any of his present commercial subscribers with practically any information he desires about entering any foreign field. If the subscriber receives a letter from a foreign field, Mr. Bartlett can probably advise the American merchant as to whether the writer of the letter is one with whom it is safe for him to do business. No one can help being impressed with the facilities offered the manufacturer or merchant by this Museum.

The question now arises as to whether a department of the Museum can be started and can furnish to investment dealers a service which will be of sufficient

value to them to make their contribution to its support a paying one. If I do not misquote Mr. Bartlett, he figures that for the sum of \$10,000 a year such a department could be established, which would mean a subscription of \$100 apiece from 100 contributors. We doubt if there are 100 members of the Association who would care to contribute, and our plan was to ask big banks outside the Association to become subscribers. If any such plan as this were adopted, the Foreign Relations Committee of the Investment Bankers Association might serve as an advisory committee to assist Mr. Bartlett and the statistician actually having charge in outlining the general policies. We have not worked out in detail the possibility of splitting the dues in some such way as they are graduated in the Association itself, as this was a matter dependent on whether or not the main idea seemed valuable.

It may well seem to you that the time is not ripe for such an undertaking. It is hardly twelve months since we began to finance foreign countries on any scale. We ask each man to think over whether he personally is going to derive benefit from such an undertaking, for unless he does he will not subscribe more than once, and we are agreed that it is most inadvisable to make a start unless we can see very fair prospects of success. We do not want to be loaded with something which requires the passing of the hat each year to keep it going.

Before Mr. Bartlett speaks, we will turn to another suggestion as to how the work of this committee might be of some value, even if the contemplated idea of the Library does not materialize. There has been for many years in London an organization known as the Council of Foreign Bondholders. This Council is supplied with a large endowment. It issues each year a report on the various countries; takes charge of proceedings for the benefit of bondholders in collecting interest from delinquent countries; has the power of blacklisting those countries from borrowing in England until all past payments have been made up, and in general serves as a permanent protective committee for British investors in foreign securities. Mr. Rosenthal will outline very briefly the functions of the Bondholders Council at the close of the report.

We regret to have taken so much of your time by our report, but, in closing, we are unanimous in making one recommendation, namely, that if some change is not made there is no use in a Committee on Foreign Relations unless it be a desire to honor certain members with a committee appointment. We think that it is hardly worth while that it be kept in existence for this purpose, and we will cheerfully join in the throng that attends its obsequies.

Respectfully submitted,

BARRETT WENDELL, JR., *Chairman.*

(Applause.)

Mr. Wendell (continuing): Mr. A. J. Rosenthal of Bernhard, Scholle & Co., the oldest man in point of service on the committee, will speak to you about the Committee of Foreign Bondholders. (Applause.)

Mr. A. J. Rosenthal (Bernhard, Scholle & Co., New York):

Mr. President and Gentlemen: The Corporation of Foreign Bondholders was founded in 1868 and was incorporated by an Act of Parliament in 1898.

Under the Act of Incorporation, the Council of the Corporation, which is comparable to an executive committee, consists of twenty-one directors, of whom six are nominated by the Central Association of Bankers, six by the London Chamber of Commerce and nine by the Council as a whole. The Corporation has at its disposal about \$1,000,000, the income of which it spends principally to maintain a competent organization whose principal duty is the protection of the interests of the holders of foreign securities. It attempts to protect such interests mainly in two ways:

First, through the force of public opinion, which it seeks to educate through annual reports, which are circulated all over the world containing comprehensive information regarding the financial condition of a great many foreign countries, the information being regarded as among the most authoritative obtainable. In addition to this, it keeps elaborate records regarding the economic and financial conditions of the various states with whose debts it is called upon to deal and such records are placed at the disposal of investors or other interested parties.

In the forty-first annual report for the year 1914, comprehensive reports were made concerning the financial condition of:

The Argentine	Province of Buenos Aires	Colombia
Costa Rica	Ecuador	Egypt
Greece	Guatemala	Honduras
Liberia	Mexico	Nicaragua
Paraguay	Portugal	Salvador
Santo Domingo	Spain	Turkey
U. S. of America	Uruguay	Venezuela

The report also furnishes a list of the bond issues in default at the time.

The second principal way in which the Corporation of Foreign Bondholders attempts to serve the interests of holders of foreign securities whenever their rights have been prejudiced by the action of foreign governments, is through the formation of committees, similar to our own protective committees. It sometimes does

this on its own initiative, more often when the help of the Council has been solicited by interested bondholders. In either case the Council lends its help and advice in the formation of a committee, its president and vice-president, and sometimes one or two other directors becoming members ex-officio of the committee. The corporation furnishes headquarters for the committee, and places at its disposal the benefit of its long experience in dealing with defaulting states and, in addition to this, advances such sums of money as may be required to defray the necessary expenses connected with the negotiations. It is reimbursed afterwards, either by the bondholders, or more generally by the governments in default when they settle with their creditors.

It is only after such committees have effected settlement with defaulting governments satisfactory to the Council that any material amount of money could be raised in Great Britain by such governments, so great is the moral influence of the Council of Foreign Bondholders. There is no reason why the Protective Committee's decisions would have to be satisfactory to the Council, but it is interesting to note that in the history of the past forty years there have been no cases where a material difference of opinion has arisen between the Council and any of the Protective Committees appointed by the various bondholders.

During the time in which this Corporation of Foreign Bondholders has been in existence, it has been concerned in the settlement of debts aggregating not much short of the sum of five billion dollars, and the value of the Corporation's services in this connection may be judged from the fact that at public meetings resolutions have been passed expressing cordial appreciation of the services of the Council in connection with the debts of Spain, Portugal, Turkey, Colombia, Costa Rica, Ecuador, Guatemala, Nicaragua, Paraguay, and Venezuela.

I have attempted to outline, very briefly, the principal functions of the Council of Foreign Bondholders. I am sure it is the hope of all of us that the foreign financing that has been done thus far in the U. S. A. may prove to be only the forerunner of a great deal more, and it might possibly be of use to have an impartial body in this country which would act (in addition to the reputation of the issuing houses), as a deterrent to the placing of unsound issues among our investors and would also help to protect

the interests of security holders, if, unfortunately, there should be any default in the payment of the interest or principal of foreign government bonds.

Could not the Investment Bankers Association occupy, in a measure, a position here similar to that occupied by the Council of Foreign Bondholders in Britain? It is probable that were we to ask for the active help and co-operation of the Corporation of Foreign Bondholders that we would get it and with such help, it might be that the Investment Bankers Association with its power and prestige, would do invaluable work for American investors at small expense.

Mr. Wendell: Mr. Bartlett is Chief of the Foreign Trade Bureau of the Philadelphia Commercial Museum, and before we leave here we are very anxious indeed to have an expression of opinion from the Convention as to whether this is worth doing or not. I have written letters to Mr. Rosenthal and he has written letters to me, and much as we enjoyed it personally, it will have to stop, unless we can do some good. Now, Mr. Bartlett.



BARRETT WENDELL, JR., *Vice-President*
Lee, Higginson & Co., Boston



THE PHILADELPHIA COMMERCIAL MUSEUM

DUDLEY BARTLETT,
Chief, Foreign Trade Bureau
Philadelphia Commercial Museum

Mr. Chairman and Gentlemen, after the very gentle hint of the Chairman of your Foreign Relations Committee, I do not think that you need fear that I am going to inflict on you any bursts of oratory, nor am I going to take very much more time than will be allowed by the hour glass, although your Chairman has very kindly intimated that the glass is not working at present.

I read in a financial journal as I was coming from Philadelphia on the train on Sunday a short article in which this organization was characterized as one of the most powerful constructive agencies for furthering the industrial and commercial trade interests of the nation. I want to endorse that most fully, and it is because I feel that this organization has such tremendous potentialities that I am anxious, if any plan can be worked out, to be instrumental in helping your organization to do for this country what it can do.

There is no question in my mind that you can do for the foreign trade of this country what no other single organization in the country can do. There is no doubt that trade follows investment very much more surely than it follows the flag. We have reached a point in our foreign trade which has gone far beyond what we, any of us, anticipated twenty years ago.

Twenty years ago the Philadelphia Commercial Museum was founded by the present Director, Dr. W. P. Wilson, when it was not wanted, when the manufacturers of this country had no more use for it than many of you would probably have for it at the present day, when they were no more interested, nor not nearly so much interested in getting foreign business as you are, many of you, interested in foreign investments at this time; but Dr. Wilson was farsighted enough to see that the time was coming when we would have to have foreign trade, when the products of our factories would be vastly greater than we could market in this country.

To-day the trade of the United States has reached a point in foreign trade where it is over six and a half thousand millions of

dollars; when you realize that six and a half thousand million dollars is only ten per cent less than the entire foreign trade of all the world in the early '60s, you can have some idea of what our trade has reached. Now, of that trade, there are over two thousand million dollars in imports, and over four and a quarter thousand million dollars in exports. We have an excess, therefore, of exports over imports of over two thousand millions of dollars. Now, this is paid for by \$404,000,000 in gold, leaving over one and a half thousand millions to be covered by shipments of securities to be sold here, or by credits extended to foreign countries. It is hardly necessary to tell you what that means. You know that we must begin to invest outside of the United States, if we are going to get the trade of the countries which are being developed like the South American countries. We have to do what England has done. Sixty per cent of the railroads of South America are controlled by European capital. It is a difficult matter for an American manufacturer of railroad supplies to sell to those railroads, standardized according to English standards, managed by English engineers, controlled by English capital. A large proportion of the electrical industries, the electrical plants, municipal and others, of South America, are controlled by Germans. It is a difficult matter to sell American electrical equipment to plants of that nature, so that just briefly I want to say that I believe you can do a tremendous amount toward the development of the foreign trade of the country, and that is the particular line of work in which I have been engaged for twenty years or more.

The Commercial Museum, as I have said, was established twenty years ago. It has sent representatives to every part of the world. It has established connections in every country, and in every large commercial center. It also has connections in the smaller places. It is at the present time answering in the neighborhood of over 100 inquiries daily from foreign firms, who want to make connections in the United States with American producers; over 100 inquiries every working day of the year. It is called the Philadelphia Commercial Museum and it is supported largely by appropriations from the State of Pennsylvania, and from the City of Philadelphia.

The Foreign Trade Bureau, however, is national in its scope. It is not in any sense local. It is working for the manufacturers,

the exporters, and the importers, of San Francisco, of Portland, Me., of Birmingham, Ala., and of all parts of the United States.

Now, we have in the course of these twenty years come into very close touch with governmental departments in all parts of the world, and we are receiving in our library a large amount of information which we never use, bearing on the finances of foreign countries. Mr. Wendell pointed out to me how that might be used. I had an inquiry the other day from a Philadelphia banker who wanted some financial information about the states of Brazil. He asked me over the telephone if we had anything. I said I did not know, but I thought we had; I thought we had something that would give it to us up to 1918, anyway; and he said he would send somebody over to look at it. I went to work then and brought out the material, full of information about the finances of Brazilian states, and of the United States of Brazil, as a whole, up to 1915. I did not know I had it until I went to look for it,—so that will give you an idea of what we already have. Our connections enable us to get more.

Now, if that can be utilized to the advantage of your members, we want to put it at your disposal. The institution is not in any sense a money-making institution; every dollar we get goes into the work. No dividends are paid. It is absolutely impartial and independent. It is controlled and governed by a Board of Trustees, composed of twelve or fourteen of the leading business men in Philadelphia, who serve for life or good behavior. In addition to that, we have, as ex-officio members, who are as active as ex-officio members generally are, the Governor of the State and the Mayor of the City, and some others.

That is just to give you an idea of what the institution is, and what it may be able to do. Its reputation abroad established during these twenty years of work,—well, it is known better abroad than it is in the United States.

We have had not less than seven governments send commissions to us to study the institution with the idea of establishing similar organizations, either under governmental control or privately, in their own countries. Several countries have established such; Japan has, for one, and Austria has. Germany adopted certain features. They had a commission from Germany

which spent two weeks at the Commercial Museum and we showed them the whole inside and outside working of the institution.

To get down to brass tacks, I am going to read, if you will allow me, the correspondence that I have had with Mr. Wendell, and I think that will put the whole proposition before you.

He wrote to me last March:

"For the past two years we have been engaged in collecting certain statistics concerning the finances of foreign countries. These have reached considerable volume and are now stored at the office of the Secretary of the Association in Chicago. It is apparent that information gathered in this way is of little benefit to the members, for it is, most of it, not in a form to be easily usable. Mr. Kendrick (of Philadelphia) tells me that he has consulted you in regard to questions concerning foreign countries, and that you have on hand a large amount of information.

"At the recent meeting of the Board of Governors of the Investment Bankers Association, held in Baltimore on March 17, the Committee on Foreign Relations was instructed by the Board to make a report in June as to the feasibility of the establishment in New York of a library which would contain all available sources of information concerning the statistics of foreign governments, and as to the cost of maintaining a sufficient staff to work this information into shape."

In reply to that I suggested that Mr. Wendell should come and see what we had. After he had gone, and after telling him something of what I have told you, I wrote:

"After you left yesterday I consulted our Librarian and our Statistician, Mr. McFarland, with reference to the advisability of establishing a department to cover the line of work in which you are engaged. I believe in view of our connections abroad and facilities which we have here, we could maintain such a department in an efficient manner, at less expense than could be done in any other way."

Now, we had further correspondence relating to the suggestion that it ought to be in New York where it would be more central; and then it came down finally to the proposition from Mr. Wendell:

"If we can provide 100 new subscribers to the Museum at \$100 apiece, will the Museum be willing to establish such a department? Some of them may not be members of the Investment Bankers Association.

"Would this subscription of \$100 entitle a subscriber to the Financial Department to obtain commercial information from the Commercial Department? In return for this, any of the Commercial subscribers would be entitled to receive financial statistics if they so desired. If this could not be done, would a small additional fee to each class entitle them to the double service?"

I made this suggestion:

"In compliance with your request, we give below a partial report of the facilities now possessed by the Commercial Museum for serving members of your organization, suggestions as to how those facilities may be increased, and an outline of a plan of service based on 100 subscriptions of \$100 each.

"The material in the library of the Commercial Museum, while chiefly of a commercial nature, includes a large number of official reports bearing on the finances of foreign governments. In addition there are on file statistical reports covering the resources, industries and commercial development of practically every country, with many works of a special nature, which, while not strictly official, are reliable and exhaustive.

"Our librarian is a man of long experience and wide reputation as a statistician, and on our staff are several men who have had long experience in compiling statistical reports.

"The Commercial Museum has built up a system of foreign correspondence, the result of twenty years' effort, which covers all countries and includes many hundreds of correspondents, among which are a large number of financial institutions, government officials and commercial organizations.

"Under the proposed plan the Commercial Museum will establish a special financial department, employing an adequate and efficient force of compilers, file clerks, translators and stenographers; will secure all special and regular reports obtainable on the finances of foreign countries, large public utility companies and similar organizations, and will file and index such material for purposes of ready reference.

"In the way of direct service to subscribers under the proposed plan, the Commercial Museum will prepare statistical reports on the finances of foreign countries upon request; compile voluntary reports of a similar nature as new data is received and collated, and send same to subscribers to this system of service; reply to inquiries on the general conditions, imports, exports, industries, products, character and demand of individual markets and similar subjects; supply reports on the financial standing and reputation of foreign business houses or corporations, not in excess of twenty-five to each subscriber, with the understanding and agreement that such information shall be used *exclusively* for the benefit of the subscriber to whom it is furnished; send regular issues of the 'Weekly Export Bulletin' to each subscriber.

"You will understand, of course, that there will be considerable preliminary work necessary before this department can be working to its fullest efficiency, and that a large amount of material must be collected and a working system established.

"The Commercial Museum is not in a position at this time to finance this proposition so as to have it in actual working shape at once. We shall, therefore, expect the co-operation of your Association and of all subscribers to this system in the organization of the department.

"We understand also that your committee will turn over to the Commercial Museum all the material that you have gathered, which, added to what we now have, will form a nucleus of the collection it is proposed to make.

"You will notice that we have placed no restriction as to the amount of service rendered except in connection with the furnishing of reports of individual firms. It would, of course, be possible for a subscriber to call upon us for such a large amount as to practically swamp the department, especially if such requests came before the department was in smooth running shape. We do not, however, anticipate that subscribers will be unreasonable in that respect. If reports are asked by any one subscriber covering a number of countries, we trust that they will understand that data will be furnished as rapidly as the information can be secured and compiled."

Mr. Wendell was somewhat in doubt as to what I meant by the preliminary financing of the business, and I answered:

"I did not mean to convey the impression that there would be any necessity for payments in addition to the 100 subscriptions of \$100 apiece. It would be necessary, however, to have payments made in advance, at least partially. It would be entirely satisfactory to us to have the payments made in quarterly instalments in advance, on the basis, however, of a contract for the full \$100."

Now, we of the Commercial Museum are anxious to have some arrangement made, if it can be done in a practical way and is going to be of use to you. Our reason for it is not because we are going to get some more money to spend; it is because it is going to add to the prestige of the Commercial Museum in foreign countries,— at home, but especially abroad. To-day we are calling upon foreign governments, foreign trade organizations, business houses all over the world, banking institutions, for information solely for our own benefit. We are simply asking them how we can sell American goods in their markets. We seldom ask them for any information which would indicate that we are going to do something for them.

Now, if we can on the other hand be known as an institution through which it is possible for them to spread information that will lead to a larger marketing of their securities in these countries, it is going to make our position stronger with those firms. That is practically the one reason why we should like to see this done; but I am just as anxious as Mr. Wendell to have it done after due consideration. I do not want to see it started and stopped. I do not want you to go into it and then drop it at the end of the first year, but if it can be done in such a way as to be of general use to you, I know it is going to be of use to the country. (Applause.)

The President: Gentlemen, will you just turn to your program? There are three things we are anxious to find out:

1. "Would a Financial Department, in connection with the Philadelphia Museum, as outlined in this report, be of general use to a considerable number of the members of this Association?"

2. "Is it of sufficient general interest to warrant any appropriation from the general funds of this Association?"

3. "Is it practical to maintain such a department on a subscription basis?"

Before we start this discussion, I just want to say a word. We have a large program before us, which we must carry out during the next three days. There are a number of interesting topics coming up, most of which should provoke considerable discussion. I will ask you please to confine your remarks strictly to the topic then under discussion. For instance, we are going to take up now,—1. "Would a Financial Department in connection with the Philadelphia Museum be of general use to a considerable number of the members?" That is No. 1. Now, while you are talking on that, do not talk about No. 3—"Is it practical to maintain such a department on a subscription basis?"

Let us settle No. 1 before we get to No. 2 or No. 3, and the Chairman will endeavor to do his part in trying to confine the discussion to the topic under consideration. The meeting is open, gentlemen, for discussion.

Mr. Bodell (Bodell & Co., Providence): I would like to ask if there is any other organization in the country similar to this doing the same work.

Mr. Bartlett: There is no organization doing all the work. There are organizations which do some of the work. The department of the Bureau of Foreign Relations at Washington does some of the work that we do, and some that we do not; but our organization, our local organization, is doing something in the way of foreign trade, but there is no organization which has collected the data that we have, that has a file that can compare either in extent or value of material with that which we have in our own library. With regard to the mere matter of development of foreign trade and helping the manufacturers to get information with regard to foreign trade, there are other organizations which are doing similar work,—the National Association of Manu-

facturers, and the American Manufacturers' Export Association,—which works along different lines, and organizations like that of the Chamber of Commerce of Cincinnati, which is doing local work.

Mr. Williams (Fidelity Trust Co., Baltimore): I would like to inquire in view of the rapidly changing conditions of South America, and in other parts of the country, what steps are being taken by the Philadelphia Museum to keep up to the minute with respect to the data which will be available.

Mr. Bartlett: Do you mean financial data? As I have explained, we are doing very little in that respect at the present time. The data that we are collecting is commercial. What we get is collateral, or comes to us voluntarily. We have done practically little of that, as I say, and recently I found a large amount of information for one house, and a little while ago for another banking house, and a good deal of information about the Argentine, which came to us through our rather close relations with other departments of various countries. We have made no special effort along that line, but are in a position to do so.

Mr. Wendell: I should like to ask again, because I did not quite understand, whether this Museum had a regular list of subscribers on the same line as the Dun and Bradstreet associations; if so, what fees they paid.

Mr. Bartlett: We have regular subscribers, but not on the system of Dun and Bradstreet altogether. We have subscribers who pay us at the rate of \$100 a year; some of them pay us \$800 a year; some of them pay a small sum to be registered. We have a membership which comes to over 6,700, and a membership which has connections altogether of about 1,000 manufacturers who request information.

The President: Gentlemen, I would say this, that despite the fact that we were invited to the obsequies of the Foreign Relations Committee—(laughter)—that this Committee has been one of the hardest working and most diligent committees that this Association ever had. Its members have traveled between Boston and Philadelphia and New York and Chicago frequently to attend meetings, and they are very anxious to get a real expression of opinion on this subject, over which they have spent so much time, and we would like to hear from all of our members

who are at all interested. We would like to get the viewpoint of people who have not been working on the subject, and who have had it presented to them this morning.

Mr. Baker (Baker, Watts & Co., Baltimore): Mr. President, the first topic which Mr. Wendell has suggested for discussion I think most of us can answer for ourselves very quickly. The second two perhaps are not quite so easily answered. It seems to me that such a library as has been suggested here would be of great benefit to considerable people, and I believe a very large number of the members of this body, and speaking to that point for myself, I can answer very decidedly that I think it would be. I am not yet, of course, speaking on the second theme.

The President: Is there anybody else that would like to be heard on the discussion of Topic No. 1?

Mr. Dinkins (Interstate Trust & Banking Co., New Orleans): I think it depends somewhat on the attitude of each individual member. New Orleans is the second port of the United States, and decidedly we are interested in it, and we shall be very glad to vote yes on Question No. 1.

Mr. Stratton (Megargel & Co., Chicago): Mr. President, a number of years ago I was a member of a firm that was a member of the Philadelphia Commercial Museum, and I know something of their work from the commercial side. Speaking for my present firm, it is of sufficient interest to us to do anything within reason to connect the two organizations in some way, and I believe in considering the present condition and outlook in foreign trade and foreign securities it would be of enough general interest to the Association to warrant our taking more interest in it.

Mr. White (J. G. White & Co., Inc., New York): We have for some years been somewhat interested in foreign business, particularly through our London people, and it seems to me there can be no doubt whatever about the general interest of this subject to members of this Association. Whether the Philadelphia Museum is the best channel through which information can be collected and collated, and made available to members, is something that the Foreign Relations Committee of this Association can decide better than any individual member, because they are studying the facilities of other organizations, including the Washington bureau, and I would be guided by their best judg-

ment as to the best and most reasonable channel, but if they conclude this Philadelphia Museum is the best channel, I should be heartily in favor of endeavoring in any way possible to enter into such a resolution as the Committee may decide upon.

Mr. Wendell: In reply to that, I do not think anybody on the Committee feels that the Philadelphia Museum is the ideal place to have it located, but it is a question of money. There is no other depository of so much statistical information, as Mr. Bartlett says, in the world. You cannot go out and duplicate that, probably, for any amount of money, and if you try to duplicate just the books, the modern books, etc., in regard to finance, you would run right into big figures. I do not believe you could do it short of \$50,000 and begin to make a start. You have no overhead; the buildings are maintained by the State and the City; they are heated and lighted and repaired, and there is no profit made out of it. Every dollar that this Association puts into the Museum goes out in books or information given. It is like a hospital in that way, and that is the reason we felt that if the work was to be done at all, it ought to be done there. We would much rather have it in New York City, from the point of view of the people using it there, but it did not seem to us to be feasible, and that is the reason we suggest that.

The President: Are you ready for voting on Question No. 1? The Committee would like to have the vote of the Association. Are you ready for the question? (Cries of "Question!") All in favor, or all who consider that a financial department in connection with the Philadelphia Museum would be of general use to the members of the Association, will kindly say aye.

Mr. White: Before we vote on that, is it understood that this is a binding action, or is it a recommendation?

The President: Not at all, sir. It gives to the Foreign Relations Committee an indication whether the members of this Association individually would be interested. If the vote is overwhelmingly in favor of the proposition, the Committee will then take active steps to put this plan into practice. If the vote is negative, they will drop the entire matter. Am I right, Mr. Wendell?

Mr. Wendell: Yes. We will write to the individual members and outline what the Museum can do, and see if it is going to



H. P. WRIGHT
H. P. Wright Investment Co.
Kansas City, Mo.



appeal to them. If there are enough favorable answers we will start on it, but it does not seem to be any use to do that, unless somebody is going to take interest. It just means one more letter for them to answer.

The President: I will ask the ayes on the question to respond. (The motion was carried unanimously.)

It is a unanimous vote, that it would be of considerable use.

The second question is, "2. Is it of sufficient general interest to warrant any appropriation from the general funds of the Association?" That is, any annual appropriation up to \$10,000, or any part thereof, which appropriation would be for the benefit of all the members of the Association, but would of course be utilized to a greater extent by some than by others. Those who favor an appropriation from the funds of the Association will signify by saying aye, and those to the contrary no.—The noes have it.

Now, we have settled two things,—in the first place, we want it, and in the second place, we are not going to pay for it. (Laughter.) And the third question is quite evident: "How are you going to get it?"—"Is it practical to maintain such a department on a subscription basis?"

Now, I think you can rely on the Committee. I have had several talks with them in meeting on this, so that you need not decide the basis to-day. If it is right that a bank with a million dollars capital should pay \$250 a year, and a small bond house with \$50,000 capital should pay \$25 a year, why, they will settle it that way. Those are details. I do not think we need enter into any discussion as to classified dues, but the point is, does it look to you as though a plan on a subscription basis, with individual subscriptions, would have enough support to justify these busy men in giving considerable additional time in working up the subject?

Mr. Moore (Barclay, Moore & Co., Philadelphia): It seems to me that this is a matter that can only be decided through actual correspondence with the members of the Association, and therefore I move that this question be referred to the Foreign Relations Committee. I do not think it is necessary to enter into a discussion on that at this time.

Mr. Wendell: That is agreeable.

The President: Do you second the motion?

(The motion was duly seconded.)

It has been regularly moved and seconded that Question No. 3 be referred back, without discussion, to the Foreign Relations Committee for settlement. Any discussion now is in order as to whether it shall be referred, but it is not in order on the topic itself.

Mr. Wendell: I move we withdraw the second resolution, then, by voting that we should not make any appropriation from the general fund.

The President: That does not prevent the argument on it.

Mr. Wendell: There is no leeway.

The President: We can do a lot without money — we still have those brains and experience.

Mr. Wright (H. P. Wright Investment Co., Kansas City): Mr. President, it seems to me that it is clear that the object of this is for this Committee to gauge the general expression of the opinion of the Association for their guidance. It is not a binding action that we are taking; it is simply an expression which Mr. Wendell has asked for, with tears in his eyes, to guide him in his future work. I think it would be a matter of discourtesy to dismiss this without giving some kind of expression. I am opposed to the motion before the house but I think we ought to vote on it one way or the other.

Mr. White (J. G. White & Co., Inc., New York): Ten thousand dollars,— is that the dues or is it \$100 apiece? In other words, if there are two hundred firms in the Association who want to contribute \$50 apiece, would it be that, or would it be \$20,000?

The President: I think the additional members would increase the expense. Am I right?

Mr. Bartlett: Gentlemen, on the first year we would be willing to take some sort of a chance on it. If we could get \$10,000 to make a trial on, and establish a department, I have found in the course of our experience, with subscriptions of that nature, of \$100 apiece, that there are always quite a number who use it very little. A man may use it once and get his \$100 worth, and yet the cost in labor and time and effort is only a few dollars to the Museum, and yet he is satisfied with the one answer; so that it is difficult on a plan of that sort to work out in advance just what the

result is going to be, but I think that we should be assured of \$10,000, which would enable us to start the thing and put it on a proper footing, and give efficient help, and that we would take our chances on the first year on a larger number of subscribers,—that is twice the number of fifty; but on the second year we would then try to work it out on a basis which would reduce it to each individual member, or possibly put it on a basis as — Pay as you go.

The President: Is it your idea to make that department self-supporting, and not money making, but to break even?

Mr. Bartlett: Make it pay its own way, and not have it skimmed so much that it cannot do the work efficiently.

Mr. White: As the Association has already passed a vote indicating going into the subject, it seems to me that the motion should be referred back to the Committee. It is entirely unfair to the supporter, and to the men who voted first that way, and instead of the committee being discouraged, they should be encouraged, if a unanimous vote is given, if the Association is interested, and in which the Association hopes they will continue, in spite of discouraging details, until they have reached a satisfactory solution in the way of providing this for members. I have no doubt that Mr. Wendell agrees that his firm, and a great many others, would like greater resources than his library contains, and that can be very largely supplemented. While New York would be better than Philadelphia for convenience, yet it is only two hours to Philadelphia. We could send representatives over there, like everybody else, and so I hope this motion to refer back to the Committee will be carried, and I hope the Committee will take that as indicating an active interest on the part of the Association in their work, and as a request to continue their vigorous efforts to bring out something tangible.

The President: Mr. White, I think if that is the way you feel, I suggest you have the motion amended to refer it back to the Committee with a request to proceed, because I think there was a misunderstanding of that motion.

Mr. Moore: That was my purpose, Mr. President, in presenting the motion. In other words, I have in mind, say there are many firms not represented here this morning who would want service and you would have to find them out by correspondence with the membership, and my idea was the Foreign Relations Committee

would take up that correspondence and find how many members would subscribe to the service. It was not to shut off discussion or expression of opinion that I made the motion.

The President: Of course an affirmative vote on this matter does not in any way commit the house you represent to a subscription. It is simply your own judgment as to what should be done.

Mr. White: Following the suggestion made, I request the mover to include in his motion just the phrase that the question of the method of procedure in regard to the establishment of a financial department in connection with the Philadelphia Museum be referred back to the Committee with the request that they work out a plan of action.

Mr. Moore: I accept that amendment.

The President: The motion is then that the question of method of procedure in regard to the establishment of a financial department in connection with the Philadelphia Museum, be referred back to the Committee with the request that they work out a plan of action. Is there any further discussion on this motion?

Mr. Coit (Megargel & Co., Chicago): This is the Investment Bankers Association of America, not of any particular locality. There is no question at all but what this problem of the attitude of the United States with foreign countries and the inter-relation of securities is one of the big problems that the United States has to face.

I do not think that any firm should take the position, in view of their membership in this Association, of just how much it should benefit them. This is an Association of America, and as investment bankers we ought to work together. We ought to say whether it is worth \$10 or \$50 to us, and I think it is a very vital point as to whether this should be handled as an association, or should be left as a question of personal interest or interest of any house, and I think we ought to have enough interest in this big problem to decide on this point and carry out this discussion before us.

The President: Are you ready for the question? All in favor of the motion to refer back to the committee with instructions to proceed will signify by saying aye. To the contrary, no.— It is unanimously carried.

Mr. Wendell: Mr. President, there is one thing I would like to say, one more thing. I hate to take up time on this, but one reason that it does not make much difference as to whether this is located in Philadelphia or New York is due to the fact that so many of these books are in a foreign language. You cannot send your statistician around the corner to get the statistics unless he is a very able fellow. Mr. Bartlett can render through his interpreters that service for his subscribers. You can telephone him and he can get into some sort of English the information you want your statistician to work up.

There is one other point, if you will give one more expression of opinion: Is there any use of negotiating with the Council of Foreign Bondholders in London to get a start now to form some sort of protective committee, even if we do not need it? You have given us great help in regard to the library. Now, if you have any views on this other one, we shall appreciate having them.

Mr. Williams (Fidelity Trust Co., Baltimore): I move that this last question also be referred to this committee.

The President: We would like to add to that motion some idea of whether you approve of or disapprove of the idea; that is what we are here for.

Mr. Williams: As I understand it, the purpose of this Committee with respect to the foreign matter is to obtain information, and I would be in favor of securing all the data that they can.

The President: My understanding of the matter is particularly in going into new provinces of banking, that it is better to have a protective committee before than after, and this is an effort to form a protective committee, to avoid the faults rather than to cure them after they have happened, and as I understand your motion, it is to refer back with instructions to the Committee to continue their negotiations or continue their consideration of the subject, and with the approval of the Association on the general policy.

(The motion was duly seconded.)

Mr. Bodell: A few moments ago I suggested you withdraw the second resolution for the reason that it seems to me that the Investment Bankers Association, if they are put into relationship with the Committee of Foreign Bondholders, will not retain its identity, even in the case of the Philadelphia Museum, without

some funds from the Association. I do not see how the Association can retain its identity except through the efforts of individual members of the Association, and you lose the force of just the sort of thing that they are now asking for.

Mr. Wendell: Mr. Bartlett has very kindly said he would like to have the Committee on Foreign Relations of the Investment Bankers Association act as an advisory committee; that is all we thought the Committee might do. Mr. Bartlett could pick out all the data and see if we could not establish, so to speak, an Interstate Commerce Commission report on foreign governments, and work them out on some relative basis. He can work on some such lines. We thought that our Committee might serve, with the help of the Association, in framing those questions, and then while it was doing this work he get the information along those lines.

Mr. Bodell: It seems to me with regard to that second resolution whereby the Foreign Relations Committee are deprived of the funds of the Association, a small percentage of the amount required, should be withdrawn, in order that their hands might not be tied, so that they can keep the identity of the Association in that work. I think it is a great mistake to allow the Association to lose its identity in this work.

The President: I did not understand by the motion, and I did not think the Committee understood by the motion, that the work of the Foreign Relations Committee, in connection with this Philadelphia Museum, should cease now, or that their usual expenses for more or less routine work should not be continued, and possibly some of it used in connection with this work, but with no general appropriations for the benefit of the individual members, made from the Association's funds.

Mr. Bodell: Mr. Wendell said we would lose our identity if we went on in the way I suggested.

Mr. Bartlett: I would only suggest that if any plan of co-operation is suggested that we would work a special department, which would possibly be known as a Foreign Finance Department in co-operation with the Investment Bankers Association, and the Investment Bankers Association's name would always appear in connection with the work of that department or bureau. I do not say this in order to get you to make any special ap-

propriation, but simply to show a way in which the identity of the Investment Bankers Association of America will not be lost.

Mr. White (J. G. White & Co. Inc., New York): In seconding this motion I had in mind urging the Committee to continue their joint work. It seems to me this is something in which there need be no hurry and I think the Committee of the Association should continue another year, and at the next annual meeting there will be some definite recommendation which they can make. As an individual committee it seems that is the proper action for the committee, to discuss the personnel of the best sort of a committee, and at the next annual meeting there should be some specific recommendation made as to the personnel of the committee. Cordial relations with the Foreign Bondholders' Committee should be established and maintained, but this Committee should be entirely interdependent. There might be times when the relations should be friendly, but not too interdependent.

The President: The resolution which we have now before us is that the Committee be instructed to continue its work in this connection. The motion is carried.

Mr. Peebles (Brown Bros. & Co., Philadelphia): Before we leave this subject it seems to me if the Foreign Relations Committee succeeds in obtaining the sense of enough members to warrant its going ahead with this work, that the Secretary should be authorized to turn over to the Philadelphia Commercial Museum the data which they have on file. I therefore move that such authority be given the Secretary. (Motion seconded and carried.)

The President: The Chairman of the Irrigation Bonds Committee has asked me to postpone consideration of his report until a later session. I would therefore ask for the report of the Committee on Timber Land Bonds, and in the absence of Mr. Fentress, the Chairman of that Committee, I will ask another member of the Committee, Mr. F. A. Brewer, of F. A. Brewer & Company, Chicago, to present that report.

Mr. Brewer (F. A. Brewer & Company, Chicago): (Reading.)

REPORT OF THE COMMITTEE ON TIMBER SECURITIES

Your Committee has devoted considerable time during the year to the question of serial maturities as applied to timber bonds, with the view of determining whether such maturities were a source of weakness. It has been contended that borrowers were forced under serial maturities to operate their properties under unfavorable conditions, thereby only increasing their own difficulties by further depressing the market for their products. In brief, that a depressed lumber market needed curtailment of production but the serial maturities of timber bonds prevented such curtailment, forcing a continued production on an unwilling market. The result being lower prices for lumber and more difficulties for lumbermen.

Those who have opposed serial maturities have felt that a timber bond issue should be of a fixed maturity of ten or fifteen years, with a sinking fund provision that would only compel payments of principal in case the timber was cut.

On the other hand, those who have opposed this theory and maintained that serial maturities were sound, have argued that the elimination of definite annual principal payments eliminates only a small part of the charges a lumber company is compelled to face in depressed times. There continues to be even in case a plant is shut down, interest charges, taxes, insurance, watchmen, salaries of department heads and many overhead items. The contention being that the elimination of the principal payments does not greatly relieve the pressure or permit the shut down of the plant of the borrowing company.

Again attention has been called to the fact that no plant can be shut down without depreciation to the property and it is pointed out that the mills that are free from debt do not as a general rule shut down when prices are low.

The Yellow Pine Association has probably pointed the solution to these problems. Within recent months the Association has issued weekly a statement showing the production of association mills, orders received and shipments. When production exceeded orders as it did for a number of weeks in the early part of this year, a large number of the yellow pine mills began to curtail their production, not by a complete shut-down, but rather by cutting of night runs, or shutting down on Saturdays. The result has been a considerable strengthening in the market value of their products.

Following out this thought of curtailment rather than complete shut-down as demonstrated by the operators themselves, it has seemed to your committee that the correct answer in regard to serial maturities of bonds was neither the long time, one maturity issue, nor the issue where the serial maturities required the full operation of the borrower's plant, but rather the serial maturity that was based on a curtailed capacity or a minimum capacity, with a small premium price on all bonds, so that the borrower in case his plant was operated at full capacity could for a nominal premium have the privilege of calling more distant maturities of his bonds.

The manufacturers of forest products, with the exception of the pulp and paper manufacturers, have not shared the prosperity of the war brides. On the contrary the war and lack of ocean shipping facilities have been a great burden as evidenced

by the export figures for the last three years. Exports of wood products for the government fiscal year 1916 were approximately \$103,000,000; they fell to about \$50,000,000 in 1915 and were only \$60,000,000 for 1916. Nevertheless, increased domestic demand and curtailment in several branches of the trade have brought about an improved situation. Conditions cannot be termed prosperous, but they are very much better than they were. While there have been a few failures of timber companies during the year, there were not many and it is believed that they represented the afterclap of the period of injudicious financing rather than any present inherent weakness.

The best figures we can obtain indicate that the total amount of timber and pulp bond issues financed in the United States, exclusive of Mexican and South American issues, aggregate to date only about \$293,000,000. Of these approximately \$43,000,000 have defaulted, or about 14½%. We are informed that already approximately \$9,000,000 of these defaults have paid out in full or that such payment is assured.

There were presented at the last session of Congress two bills, the passage of which would greatly help the lumber industry. Both of these bills passed one House, but did not come to a vote in the other. It is hoped that they may be made laws at the next session of Congress. The first had to do exclusively with timber and provided for the exchange of intermixed government timber holdings for those held by others. The passage of this law will not only increase the value of the Government's timber by blocking it up, but will materially lessen the operating costs of many lumber companies by decreasing the amount of railroad necessary to build.

The other law, known as the Webb bill, applied to practically all American industries and in effect provided for combinations of American manufacturers or producers insofar as their export or foreign trade was concerned, legalising such combinations. May we particularly call to the attention of your Committee on Legislation, this latter bill and urge upon them the many advantages to be gained for our country by its passage? Respectfully submitted,

CALVIN FENTRESS, *Chairman.*

The President: You have heard the report. Unless there is objection it will be placed on file and printed in the proceedings. Does anyone wish to discuss the subject or give any instructions to the Committee? Hearing no such suggestion, that order of business will be passed.

We have one more number, one report for this session, and in view of the lengthy recess we have arranged for and the fact that we have an engagement after the afternoon session, I urgently request everyone to be present here shortly before two o'clock so that we may not be delayed in starting the afternoon session.

I ask now for the report of the Committee on Reclamation Bonds, of which committee Mr. J. Sheppard Smith of the Mississippi Valley Trust Co., St. Louis, is Chairman.

REPORT OF RECLAMATION SECURITIES COMMITTEE

Your Reclamation Committee determined at its first meeting that its time could be spent to no better purpose than in endeavoring to acquire a copy of the drainage law in each state wherein drainage projects existed, and to have a brief analysis made of these laws, by some experienced attorney, for the purpose of reducing them, if possible, to printed form for the use and guidance of those members of the Association who are interested in that subject.

Next, to acquire, if possible, the number of drainage districts organized in each state, together with the bonded indebtedness and number of defaults as to principal and interest and the cause of the same.

With that end in view, we selected the following states as our field of work:

Arizona	Indiana	Missouri	South Carolina
Arkansas	Iowa	Nebraska	Tennessee
California	Kansas	Nevada	Texas
Colorado	Kentucky	New Mexico	Utah
Florida	Louisiana	North Carolina	Washington
Illinois	Minnesota	Ohio	Wisconsin
	Mississippi	Oklahoma	

Your Committee addressed a letter to the Secretary of State in each of the states above enumerated, asking that a copy of the drainage law, if available, be sent us, and in those states where we were not familiar with some competent attorney, to suggest the name of one who would probably make a brief analysis of the law. With few exceptions we found that the State Departments neither possessed a printed copy of the law nor were able to suggest a competent attorney.

Through various sources we were able to finally obtain a copy of the law in each of these states, and have been successful in having an analysis made by a competent attorney in 16 states, with the promise of 6 additional states, which it is expected will be completed within the next two weeks.

While we have not been able to get in touch with attorneys in the remaining four states; namely, Nebraska, Nevada, Oklahoma and South Carolina, we are continuing our work with the expectation of having this field covered very shortly.

We submit herewith a list of the states of which the analyses have been completed, together with the names of the attorneys making the same, all of whom have been highly recommended upon this particular subject:

State	Attorney	Address
Arizona	Charles Woolf.....	Tempe
Arkansas.....	G. B. Rose.....	Little Rock
California.....	Thomas T. C. Gregory.....	San Francisco
Colorado.....	James H. Pershing.....	Denver
Florida.....	Geo. W. Oliver.....	Bartow
Illinois.....	Edw. C. Craig.....	Mattoon



WILLIAM G. BAKER, JR., *Vice-President*
Baker, Watts & Company, Baltimore

State	Attorney	Address
Kansas.....	H. I. McCune.....	Kansas City, Mo.
Louisiana	R. E. Milling	New Orleans
Minnesota.....	Wm. A. Watts.....	Duluth.
New Mexico.....	Reid & Hervey.....	Raton, N. M.
North Carolina.....	Benj. H. Charles.....	St. Louis
Ohio.....	Esra H. Kuhns.....	Dayton
Texas.....	J. T. Sluder.....	San Antonio
Utah.....	Storey & Stiegmeyer.....	Salt Lake City
Washington.....	Bucham & Blair.....	Spokane
Wisconsin.....	B. H. Vaughan.....	Grand Rapids, Wis.

With a view of acquiring the number of drainage districts in existence in each state, the amount of bonded indebtedness existing, etc., we found upon addressing the State Department of the various states, that no accurate records were possessed by them upon the subject, and we, therefore, caused a letter to be addressed, through the office of the Secretary of the Investment Bankers Association to the Clerk of the County Court in each county in practically every one of the above states. The number of replies to the first letter being unsatisfactory, this was followed up by a second and in some instances a third letter. Upon compilation of the replies finally received, the information obtained was so meager and the number of replies of such a small percentage and so unsatisfactory that we concluded it was impossible to use the data advantageously in our final report. This correspondence entailed a great deal of work and necessitated our sending out several thousand letters upon the subject.

In a further effort to obtain more information on the subject, we addressed a letter to the leading houses who were dealers in drainage bonds, requesting them to furnish us with descriptive circulars of the various drainage bond issues handled by them in the past. The number of circulars gathered from this source was insufficient for a comprehensive record, and it was the opinion of the Committee that the final report would not be benefited by embodying in it such information as we have been able to procure. We have, therefore, omitted this phase at least for the present.

Neither have we been able to acquire a sufficient amount of information concerning defaults that would prove comprehensive enough to be of any value.*

In some of the states there exist two and sometimes three sets of drainage laws, and in such instances, the attorneys in making the analysis of one law have promised as soon as possible to furnish an analysis of the remaining ones.

At this time we were placed in touch with the United States Department of Agriculture, Office of Public Roads and Rural Engineering, Washington, D. C., which office we were informed was making a thorough study of the promotion of drainage districts, including legal, organization and financial features, and in

* NOTE.— We recommend, however, as a safeguard against defaults that the bond houses, where possible, insist upon an annual audit of the accounts of Drainage Districts by certified public accountants or under the supervision of the State.

the hope of getting some useful data upon the above subject, we communicated with them, but found that they had met with the same difficulty as ourselves in obtaining statistics. This Department stated that they had found it difficult to ascertain the number of drainage districts in existence, the amount of bonds issued by such districts, and whether they were meeting their obligations promptly as with no prescribed state or county supervision it was impossible to secure accurate information along these lines.

They expressed every desire to co-operate with us in this work, and we are especially indebted to Mr. P. St. J. Wilson, Assistant Director of that Department, and Mr. H. S. Yohe, Expert on Drainage Organization, for many valuable suggestions, and in many instances for copies of the laws which we had thus far been unable to obtain. We are likewise indebted to them for the suggestion of the names of various attorneys whom they thought were competent and would be willing to make an analysis of these laws.

Your Committee has expressed its willingness to send to this Department a copy of its final report, together with the data we have been able to acquire for its use in the compilation of its records, and we have received their reply expressing their thanks and appreciation, and advising us they should be very glad indeed to have a copy of the report.

We likewise suggested to this Department the advisability of their having the drainage laws of the various states revised to date and printed so they could be distributed to the public at large. In response to this they stated they would be only too glad to do this but the Department funds which are available for publication purposes were so limited that they must confine the use of them to publications which have a wider application than those of one state. Their letter stated that the drainage laws of any particular state were only of service in that state. They had thought of making a comparative synopsis of the drainage laws but on mature consideration the value of such a publication seemed rather doubtful.

We replied that we indulged the hope they would give this subject further consideration and suggested that whatever interest could be enlisted in the subject of drainage bonds in any one state would of necessity reflect itself in the value of the issues in other states, thereby becoming a matter of national interest, at least to the extent of all of those states wherein drainage laws existed.

We suggested further the number of acres to be reclaimed in this country was of such magnitude as to justify Government recognition, at least to the extent of printing the laws of the various states, by their Department, and keeping them up to date. That if this could be done gratis, we believed that if the Government would offer the various laws for sale at a reasonable price it could in all probability reimburse itself for any expense involved, and that if the laws were on file in their Department it would be unnecessary for the Investment Bankers Association to duplicate.

Up to this writing no reply has been received to this communication.

Your Association has apportioned to this Committee \$500 with which to conduct the work, out of which we have so far only spent \$232.45.

Your Committee believes that if it should be found that these laws, or at least a brief analysis of these laws, can be reduced to printed form at a cost not to exceed the sum remaining from the above appropriation that it would prove of great

value to those houses interested in this subject, and this we ask your permission to do.

In conclusion, while we found this subject involved a large amount of time and entailed a great deal of work, we desire to express our thanks and appreciation to your Secretary's office for the very able, efficient and willing manner in which they co-operated with and assisted us.

This report is respectfully submitted,

(Applause.)

J. SHEPPARD SMITH, *Chairman.*

The President: That is the kind of work I meant when I said that experience and brains were more valuable than money, that it does not mean dollars to any of us at this moment, but it does mean that a great deal of good will be done to the members of this Association, and in the last analysis there will be an increased sale of sound securities. While we do not see to-day or to-morrow a commission or a profit coming in, it does have its effect in the long run. It all has an educational value and proves what we can do with a little money and large capacity brains, which we have in our organization. This, I wish it understood, is not all for Mr. Smith, but it applies to the other committees of the Association.

If there is no objection, the report will be received and filed.

We will now take a recess until two o'clock, and the Chair earnestly requests everyone to be prompt in returning.

MONDAY AFTERNOON SESSION

OCTOBER 2, 1916

The President: The first order of business this afternoon is the report of the Legislative Committee, to be presented by Mr. Allen G. Hoyt.

Mr. Hoyt (National City Co., New York): Mr. President and Gentlemen of the Convention: The activities of the Legislative Committee for the past year are covered in the report of the General Counsel which I have left with the Secretary, and asked him to read, please.

The President: I would like to have Mr. Hoyt read it!

Mr. Hoyt: I should like Mr. Fenton to read it if he will do so. (Secretary Fenton read the following report.)

ANNUAL REPORT OF GENERAL COUNSEL

BLUE SKY LAWS

A year ago the suit on the 1915 Michigan "blue sky" Act had been commenced, but had not been argued. It was argued in November, 1915, before Judges Denison, Sessions, and Tuttle, who had sat in the former case on the 1913 Act. On December 30th, 1915, we obtained a decision holding the Act unconstitutional. This decision (228 Fed. 805) rested primarily on the Doyle case, on the original Michigan Act (210 Fed. 173) reinforced by the decisions on the Iowa (216 Fed. 537) and West Virginia (218 Fed. 482) Acts. A similar decision was, on November 18, 1915, rendered in South Dakota on the 1915 Act of that state, the decision (foot-note, 230 Fed. 236) resting squarely on the three earlier decisions.

Late in 1915 the Ohio Act was attacked in the Federal Court in that state by dealers threatened with prosecution under it. The suits brought necessarily involved the important principles for which we have been contending and it seemed necessary to the Association to obtain leave to file a brief before the Court. The case was argued before Judges Warrington, Hollister, and Sater in Cincinnati. The decision, which was unanimous, was rendered February 10, 1916. The Ohio Act was held unconstitutional. This made a total of six federal decisions, rendered by fourteen federal judges, holding the typical blue sky acts invalid. In our Ohio brief, as in our other briefs, we particularly emphasized the principle that the business of buying and selling securities could not be made the subject of discretionary executive license and control. The cumulative effect of this work appears in the Ohio decision, which presents the most clean-cut and effective pronouncement yet obtained of the principle of freedom of private business from executive control. We quote as follows from the opinion (230 Fed. 235):

"But, however viewed, the Act transcends the legitimate exercise of the police power and violates the due process clause of the constitution. There

is a fundamental distinction between what Mr. Justice Bradley termed in *Butcher's Union Co. v Crescent City Co.*, 111 U. S. 746, 763, the ordinary occupations and pursuits of life, forming the large mass of industrial avocations which are and ought to be free and open to all, subject only to such general regulations, applying equally to all, as the general good may demand, and the kinds of business and transactions which are affected by a public interest or arise from public grant or exist by public sufferance. Of this latter class are the liquor traffic, grain elevators, inn-keepers, warehouses, itinerant peddlers, insurance, motion picture shows, concerns exercising public franchises, and the like, all of which it is competent for the state law-making power to regulate and within proper bounds subject to executive license and control, as the interests of society may require. To the former class, with which alone we are now dealing, belongs the right in good faith to buy and sell securities and to fix their price by agreement, either in individual transactions or in the course of repeated and successive transactions of a similar character, a right which, when so exercised, is both property and liberty and which cannot be made subject to either executive grant or denial. *City of Cleveland v. Construction Co.*, 67 Ohio St. 197, 219. In *Allgeyer v. Louisiana*, 165 U. S. 578, 589, it was said that the liberty mentioned in the fourteenth amendment embraces 'the right of the citizen to be free in the enjoyment of all his faculties, to be free to use them in all lawful ways, to live and work where he will, to earn his livelihood by any lawful calling, to pursue any livelihood or avocation, and for that purpose to enter into all contracts which may be proper, necessary, and essential to his carrying out to a successful conclusion the purposes above mentioned.' If an issuer or owner of or dealer in securities issued in good faith and based on value fairly commensurate with their face or selling value, is deprived of the right of disposal or of offering them for disposal, he is deprived, not only of his property, within the meaning of the constitution, by taking from him one of the incidents of ownership (*City of Chicago v. Netcher*, 183 Ill., 104, 110), but also of his liberty, as appears from Mr. Justice Matthews' saying in *Yick Wo v. Hopkins*, 118 U. S. 356, 370, that —

"The very idea that one man may be compelled to hold his life, or the means of living, or any material right essential to the enjoyment of life, at the mere will of another, seems to be intolerable in any country where freedom prevails, as being the essence of slavery itself."

"Legitimate commercial transactions, such as the disposal of securities of the kind above mentioned, cannot be regulated by legislative enactment. The act in question seeks to regulate private transactions, but the person, natural or artificial, that sells securities based upon reasonable value, is entitled to the protection of the same safeguards as the man who sells clothing, dry goods, groceries, or hardware, or engages in any other private business that is not affected by a public interest. As was fittingly said in the *Doyle* case (p. 179):

"The issuing of stocks or bonds by a private company to get money for its own business, no one can suppose is a public or quasi-public enterprise; the business of buying and selling stocks and bonds or other securities is no more "affected by a public interest" than is the business of

buying and selling groceries. When we thus recall that the prohibition applies to a private business, the question at once presents itself whether frauds and opportunities for frauds sufficiently characterize the business to justify its entire prohibition save under drastic restraints.' "

The Michigan, South Dakota, and Ohio cases are now before the United States Supreme Court and all of them will be argued early this fall.* In the United States Supreme Court we have retained ex-Attorney General Wickersham, as appellate counsel. The case will be argued by Mr. Wickersham and Mr. Reed. The Association has also directed us to file a brief on its behalf *amicus curias* on the Ohio appeal. Mr. Wickersham, Mr. Reed, and Mr. Allen are working now on the briefs in the Michigan and Ohio cases. We hope to secure from the Supreme Court a decision sustaining our position upon the general principles for which we have contended. But when we say that a recent writer has made a list of over five hundred cases decided by the United States Supreme Court, involving the "due process of law" question, and has found that in only three of these cases has the act in question been held unconstitutional, you will realize that counsel cannot feel overconfident in the final outcome of any similar question.

We should mention the fact that in the course of the year 1916, "blue sky" bills have been introduced and urged in Virginia, Kentucky, and Maryland. The bills in Kentucky and Maryland failed of adoption. In Virginia the main part of the so-called Bank Supervisors' Act was substituted for the original bill and became a law.

Reference should be made to the work involved in requiring a supplemental transcript to be filed on the Michigan appeal, covering the intervening petition of a New York partnership house, having no office or established business in Michigan; also to the fact that we had to take up questions involved in the state court case in Michigan, which was being rushed to argument in the State Supreme Court ahead of the federal appeal. Fortunately, the state court found that the appeal was premature and it was not argued.

MUNICIPAL SECURITIES LEGISLATION

A large part of the work of the Association during the winter months was devoted to municipal bond legislation in different states, particularly in New Jersey and New York. The Association is, we believe, credited with having made it possible to obtain in New Jersey a single standard bonding act, based in large part on the proposal urged by it. This act has done away with the great multiplicity of formerly conflicting statutes. It provides absolutely for the serial bond, the maturity of which is limited to the life of the improvement or purpose for which it is issued. It also adopts the principle of the optional referendum in boroughs and townships, in which an election was formerly mandatory. It requires a public sale of all issues authorized in an amount exceeding \$10,000. It does not permit a discount bond, but it eliminates the high premium bond by requiring the offering of bonds to be sold to the bidder offering to take at not less than par the least number of bonds, commencing with the first maturity and stated in a multiple of \$1,000 and to pay therefor not less than the amount required to be raised. Difficulties have arisen in the operation of this and other features of

*All argued October 16 and 17, 1916; now awaiting decision.

the New Jersey law for which the Association is not responsible, but it has in the main received the approval both of the bond houses and the municipalities. Some at least of the objections to it will be corrected by amendment in the coming legislature and the law itself will, we believe, stand. An effort will also be made to secure the adoption of other municipal bills, vetoed by the Governor last year, including a sinking fund bill requiring a minimum millage tax each year to take care of all outstanding bonds. All of this work in which the Association has taken an interest, is directed to the general legislative policy to be urged in other states. The work done and the material collected, and particularly the laws adopted, are available for use in any state where an opening for similar legislation can be obtained.

In New York as in New Jersey we co-operated in starting the movement for legislation and then placed our services at the disposal of the state and municipal authorities interested in the measures proposed. We were thus able to present the Association's recommendations to them, and to co-operate in the actual drafting of bills. At the hearing on the bills in the New York Legislature President Franklin appeared for the Association and made a very effective plea directed primarily to the serial bond limited to the life or utility of the improvement.

The New York bill failed of passage, because we were not able to get started upon it in time to get adequate consideration from the legislature. We hope to be able to obtain in the coming legislature of New York a better law than the New Jersey Law. The basis for similar work is being laid in other states, particularly in Texas and we believe in Iowa. Tentative drafts of bills for these states have been prepared and are being used as a basis for legislation. Mr. Baker is presenting with his report the working draft of a law which has been adopted by the Municipal Bond Committee as a basis for our work in the different states.

INCOME TAX LAW

The Association's work on the recent revision of the Federal Revenue Law, especially of the income tax, has been extensive and its results of much importance. We had previously taken up with the Treasury Department several questions affecting its rulings under the former Act, particularly as to the non-resident alien tax and also the taxation of income from municipal bonds received by partnerships.

On March 31, 1916, the Department published its very startling ruling holding that interest and dividends payable to non-resident aliens were subject to the income tax. This ruling was opposed to two opinions of Attorney General McReynolds dated October 23, 1913, and July 15, 1914. It purported to be based on the so-called Brushaber decision, January 4, 1916, but counsel generally, including ourselves, were unable to find anything in that decision even remotely tending to support the ruling with respect to the taxation of interest on bonds. Strong protests against the ruling were made on behalf of the Association and were instrumental in obtaining a hearing before the Assistant Secretary of the Treasury on April 18, 1916. The ruling was temporarily suspended (T. D. 2317). Mr. Reed attended this hearing and opposed the ruling and also urged that the question be referred again to the Attorney General. Counsel for the Railway Executives' Advisory Committee and for foreign banking interests opposed the ruling most strongly. Briefs were filed by all parties, including the Association. The ruling

was sustained (T. D. 2324) and the Department refused to submit the question to the Attorney General. The Department also refused to state any specific legal view on which the ruling was based. A protest against the ruling and against the Department's course with respect to it was signed by the President and Vice-Presidents of the Association and by the Chairmen of the Legislative, Railroad, Taxation and Foreign Relations Committees. This protest was sent to the President.

It appearing that all these efforts were unavailing, the Association endeavored to arrange a test suit to determine the validity of the ruling. It was, of course, necessary to commence a suit which would at the earliest possible date get the question by appeal to the United States Supreme Court. This could best be done by bringing a suit in a lower State Court in New York City, which could be carried through to the highest state appellate court having jurisdiction, and then appealed direct to the United States Supreme Court. The ruling as finally sustained was made to take effect on July 1, 1916. On that day we presented a coupon payable at the office of a New York City corporation on a bond owned by a Canadian; payment was refused; suit was commenced and issue immediately joined and the case submitted to the Municipal Court in New York City. A judgment was obtained for the plaintiff for the full amount of his coupon without deduction of the tax and an appeal was taken on the same day, July 1st, and submitted with briefs to the Appellate Term of the Supreme Court in New York City. The judgment below was affirmed by the Appellate Term on July 3, 1916, and motion for leave to appeal to the Appellate Division was then denied. A motion was immediately made to the Appellate Division on printed briefs for leave to appeal. This motion was granted. This appeal was the last appeal permitted under the state law. It could have been brought on for argument in October, 1916. In the meanwhile, however, the new revenue law was adopted, with the result that the appeal and suit were by consent discontinued.

We should also mention the fact that on February 3, 1916, we obtained from the Department a formal ruling by telegram, holding that members of a partnership were entitled on their individual returns to deduct their *pro rata* share of the income received by the partnership on municipal bonds. This ruling, however, was rescinded on June 1, 1916, (T. D. 2337), while the new revenue bill was in Congress.

Reference should also be made to the effort to obtain certain changes in the use of ownership certificates, which would do away with the disclosure of names to paying corporations and fiscal agencies.

By far the most important work of the year, if we except the submission of the blue sky case to the Supreme Court, was that connected with the revision of the Federal Revenue Law. The matters involved included first, the proposal to do away with the present system of "withholding at the source" on interest on corporate bonds with the result of shifting the tax on so-called tax-free bonds from the corporation to the bondholder; second, a proposal to make more drastic and effective the mild provision in the former law directed against the use of the so-called tax-free covenant; third, the taxation of non-resident aliens and foreign corporations on interest and dividends; fourth, the taxation of partnerships as corporations; fifth, an amendment of the law urged by the Association with respect

to losses in trade; sixth, an amendment urged by the Association permitting the deduction by members of a partnership of their *pro rata* share of interest on municipal bonds and dividends from corporate stock received by the partnership; seventh, possible changes with respect to limited partnerships; eighth, changes with respect to the normal tax and surtax; ninth, a possible amendment of the provision permitting corporations to deduct interest on indebtedness secured by collateral and subject to sale; and tenth, the new inheritance or estate tax.

On the important "withholding at the source" question, we were able, by correspondence and personal conference, to present the Association's argument to the active members of the committees of the two Houses of Congress, and also endeavored to put the Association's position clearly before the representatives of the railroads and financial institutions which were seeking to have this change made in the law. The change was recommended by the Secretary of the Treasury, and it seemed at first as though it was very likely to be adopted. There was also a strong sentiment created in favor of doing away completely with the so-called "tax-free" covenant on future bond issues. On this whole subject the National Tax Association had taken a position opposed to that of the Investment Bankers Association and the Tax Association's Committee was very active in pressing the matter. An informal discussion was arranged between several members of the Senate and House committees, and representatives of your Association and of the committee of the National Tax Association. Vice-President Hoyt, Mr. Osgood of the First Trust & Savings Bank of Chicago, and Mr. Dow of the Harris Trust & Savings Bank of Chicago participated in this discussion with Mr. Reed. We prepared a printed argument which was presented to members of Congress and others interested. A printed "discussion" was also presented by Messrs. A. C. Rearick and A. E. Holcomb of New York City, as members of the Tax Association Committee. Mr. Rearick is counsel for the Railway Executives' Advisory Committee and Mr. Holcomb for the American Telephone and Telegraph Company. Mr. Osgood, at our suggestion, prepared and presented a printed argument replying to that of Messrs. Rearick and Holcomb, and we prepared and presented a further printed argument directed to a number of proposed amendments, including the withholding and tax-free covenant questions. We kept in constant touch with the bill and those responsible for it, presenting our case personally and by correspondence up to and including the final action upon it by the Conference Committee of the two Houses. The bill as adopted by the House of Representatives eliminated the tax-free covenant provision contained in the former act. As adopted by the Senate it contained a new Section 20 specifically directed to the tax-free covenant and declaring any future covenant assuming the federal tax or agreeing to pay it to be void. The bill in this form went to the Conference Committee. We immediately took up this specific proposition both by correspondence and through Washington counsel and also with Mr. Osgood of Chicago and others interested. The bill in this form was reported to the Senate about August 17th. It was adopted by the Senate and went to the Conference Committee. In the bill as reported by the Conference Committee on September 8th, and adopted, Section 20 was eliminated.

The result on these two points was complete success for your Association. The deduction at the source was retained. The prohibition in the former law

against the tax-free covenant was eliminated and the stronger prohibition in the Senate bill was stricken out by the Conference Committee.

On the other questions involved our chief success was in obtaining a provision in the new law permitting members of a partnership to exclude from their returns the "proportionate shares received on interest from the obligations of a state or any political or taxing sub-division thereof" and providing "that for the purpose of computing the normal tax there shall be allowed and credited their proportionate share of the profits derived from dividends." This amendment entirely settles the questions under the former law which were the subject of conflicting rulings, and on which the Association had planned to bring a test suit.

The Association was also, we believe, instrumental in obtaining the amendment in the present law with respect to the deduction of losses incurred in trade, although this provision is not as clear and far-reaching as we urged that it be made.

Certain objections were made and questions raised with respect to the provision in the former law, originally secured by the Association, permitting the deduction of interest paid on indebtedness secured by collateral the subject of sale. We were able to meet these objections and questions by proposing a further amendment of this provision, which was in substance adopted.

The proposal endorsed by the Treasury Department to tax partnerships as corporations was defeated.

We were not successful in preventing the taxation of interest and dividends payable to non-resident aliens. Although many other interests in addition to the Association protested against the proposed tax, the law as amended imposes the tax specifically. There is now no question whatever as to the meaning of the law, though there may be some question as to the constitutionality of the tax.

STOCKHOLDERS' LISTS

Among the minor matters having our attention during the year should be mentioned the so-called "stockholders' lists bill" which passed the New York Legislature but was vetoed by the Governor. The Association took a position friendly to the purpose of the bill, but not to its specific provisions, and stated that, if it were vetoed, it would co-operate in preparing a more constructive measure.

RAILROAD SECURITIES

In connection with the proposed federal legislation directed to the regulation of the issuance of railroad securities, Mr. Reed, at the request of President Franklin and of Mr. Morris, Vice-Chairman of the Committee on Railroad Bonds, attended a hearing before the Merchants Association in New York City, at which, after a conference with Mr. Blunt over the long-distance telephone, the position of the Association was stated to be in favor of standardizing and safeguarding railroad financing and of uniformity in the laws governing the formation of railroads and other corporations; in favor of federal or central regulation under defined legislative standards, but opposed to anything in the nature of arbitrary executive control without such standards. It was also stated that for the purpose of obtaining federal incorporation, dealers in railroad securities would probably be willing to concede a large amount of regulative power to the federal government, and

were also inclined to favor the authorization of stock without par value as a part of such a federal law.

In this connection, mention might also be made of the telegraphic protest against the so-called "eight-hour" bill, sent by Mr. Franklin to President Wilson.

Respectively submitted,

REED AND MCCOOK.

The President: The Report of the General Counsel will be received.

On the question of the Legislative Committee's report, I would say that your Legislative Committee is entirely too modest. They do not like to sound the trumpet in their own praise, and if I may be permitted to say a word on this subject, I would say that the work the Legislative Committee has performed during the last past four years has made this Association worth while, if nothing else had been done. It has made it worth while from the standpoint of dollars and cents. The work of that Committee has saved this Association untold amounts of money through this matter spoken of by the General Counsel in their report. They have protected the very right to do business for the investment banker in the case of the blue sky statutes; and if they are successful in carrying this present suit to the Supreme Court, we will have established the right of the investment banker to do business free from what is called "*police regulation.*" We will then not be classed as doing a "*criminal business.*" But, seriously, the work the Legislative Committee has done under Mr. Hoyt's charge, while it does not make very interesting reading in the report of the General Counsel, it is probably the most vital work that has been done by this Association. While the report does not take long to read, the work which it covers has required a vast amount of attention and labor on the part of the Committee.

Mr. Hoyt, will you now present the topics for discussion?

Mr. Hoyt (National City Co., New York): I might say the first topic presented was drafted before the new income tax law was adopted. The law as passed by the House and as presented to the Conference Committee by the Senate had a very definite provision of forbidding the so-called tax-free clauses. As Mr. Reed has said in his report, the Act in effect until last month contained a rather vague clause which said that agreements to pay interest without deduction for income tax were void. Many attorneys held that in view of this clause it would be difficult

for corporations to make an enforceable agreement to pay the interest on their bonds without deduction of the tax. In most mortgages drawn during the past two years there has been no such covenant but a separate agreement has been made in which the corporation agreed to pay the interest on its bonds without the deduction of the tax. We, of course, contended for the freedom of contract, because we thought it would be necessary, particularly for smaller corporations, to pay the tax on behalf of the bondholder — in other words, to agree to pay their coupons in full without deduction of the tax. We did not get much encouragement on that point when we appeared before the Joint Committee of the Senate and the House. Mr. Reed sent a memorandum, and when the Act was finally adopted by the House and Senate and went to the President for signature, the old vague clause had been taken out and the present Act carries no prohibition against this so-called tax-free plan. Now, the question: "Should corporations be prohibited by law from agreeing to pay the interest on their funded indebtedness, without deduction for Federal or State income tax or taxes, which the corporations may be required or permitted to withhold therefrom?" becomes academic, as there is no prohibition in the law at present in force.

Question No. 2 is "Should the United States seek to tax the income derived from bonds of American corporations when held by non-resident aliens?" That is of course affected by the fact that this question No. 1 becomes academic, because even should it be decided that the United States should seek to tax bonds when held by non-resident aliens, still the corporations by having a right to incorporate in their mortgage the clause agreeing to pay the taxes without deduction, can still provide a market for their securities in Europe or in other foreign countries should there ever again be a demand for such securities, by providing in their indentures or in a separate agreement the tax-free covenant. Conditions change in the world of finance very rapidly. While, of course, now the tendency on the part of Europe, except the neutral countries, is to sell us as many securities as possible; still the time may come when they will again be willing to invest in the United States and it is true that the neutral nations, those not at war, are investing to some extent now, and it seemed to us particularly desirable if, with our very high credit, we could borrow



FREDERICK R. FENTON, *Secretary*
Devitt, Tremble & Company, Chicago



at $4\frac{1}{2}$ per cent or 5 per cent in Switzerland, for instance, and then loan it to the Argentine at 6 or $6\frac{1}{2}$ per cent, we could accomplish a double purpose. Of course we make something on the turnover, and at the same time we develop our trade with South America because it is pretty well recognized that trade follows the loan. In view of the rather happy outcome of the legislation finally adopted by the Senate, I do not regard these topics as now being of great import. However, I would like to hear if anyone has any definite suggestion to guide the Legislative Committee on the policy of fighting an attempt to tax the non-resident alien. The theory of Congress was all right in a way. Congress said if we are going to tax the citizen of the United States when he holds a bond, why shouldn't we tax the citizen of a foreign nation?

Why should we discriminate against our own people? Of course, Congress did not realize that an attempt to tax the foreign countries would mean that the foreigner would not hold our bonds or would only accept our bonds at such a low price and at such a high rate of interest that when our corporations or municipalities or whatever form of corporation it might be sought to borrow in Europe that corporation would have to pay such a high price on its money that it would amount to a tax in the United States. We know that if we can borrow to advantage in a foreign country at a lower rate than the prevailing rate here, it enables us to develop our resources just so much more rapidly.

The President: The question here depends upon changing conditions in international finance. I think it would be well to discuss the subject from a somewhat academic standpoint, because if we feel that American bonds should be exempt under the income tax law of the United States on account of the possibility of their being placed at a later date in Europe, this Association can carry more weight with the borrowing corporations in getting them to put in a tax-free covenant, as they are now allowed to do, than can any other body in this country. The corporations can not as a rule sell their bonds unless this Association, or its individual members, are willing to take them. I think it would be well worth our while to take up this question and develop it further.

Mr. Stevens (Stevens, Chapman & Co., Minneapolis): If I am not digressing too much from the direct question, perhaps at the risk of opening up a different phase, I would like to ask Mr.

Hoyt a question in relation to the work done by his committee and with the General Counsel in Washington in connection with this income tax matter.

As I understand it, to a more or less general extent, the various members throughout the country were solicited to take these particular matters up with their Representatives in Congress, and by means of telegrams, letters, etc., more or less of that thing was done. I should like to ask Mr. Hoyt if (in his judgment) that was an effective way to aid the situation. Also, if so, might it not be well to consider that in other legislative matters this course may advisedly be followed.

Mr. Hoyt: Mr. Chairman and Mr. Stevens: We never had reports in detail from the people who may have sent these telegrams. We never knew just how many were sent, or what correspondence had been undertaken, and we can only judge by the result. Undoubtedly, the influence we brought to bear and that brought by other people, all helped and the result was that the objectionable clause was eliminated. I am unable to say if any of the members of Congress and the Senators who received these letters were influenced by them for they would not advise us about that, and in many instances the people who sent them did not advise us. I am unable to say just what was accomplished by that particular method.

The President: Is there any further discussion of this subject?

Mr. Hoyt: I might say further, Mr. President, if you will permit me, that the normal tax now is two per cent, and undoubtedly that means quite a burden upon many of the corporations. It just doubles the tax they paid before if their bonds are free from the normal tax, and each corporation will have to determine for itself whether it will agree to pay the interest coupons without deduction for the income tax. If they can be required to pay two per cent, they can be required to pay three per cent, and we may have State income taxes as well as Federal. But still we maintain there should be the right to make such a contract if the corporation wishes to do so. We contended that the taxes should not be increased; but Congress did not adopt that view. Perhaps the tax will be reduced later.

Mr. Beebe (Harris, Forbes & Co., New York): Is there any

objection to putting in this clause what they are to pay, due to the fact that it might be increased later.

Mr. Hoyt: A number of corporations, when the old Act was in effect, agreed to pay the coupons without deduction of the tax, not in excess of one per cent. That creates a somewhat awkward proceeding. I may say most of the corporations in drawing new provisions will make some limitation.

The President: Is there any further discussion of this matter? If not, we are now ready for the report of the Committee on Taxation—Mr. William L. Ross, Chairman, Kean, Taylor & Co., Chicago.

REPORT OF TAXATION COMMITTEE

The year now ending has been marked by steady progress in the education of the American public in modern ideas of state taxation, and while few legislatures have been in session and therefore few new statutes have gone on the books, preparations have been made for campaigns in numerous states, looking to the betterment of tax methods.

Practically all of the tax reform movements at the present time are based primarily upon the necessity for classifying personal property for purposes of taxation apart from real estate on the grounds that a general property tax has proved in actual experience both unfair and unworkable. Such tax systems have resulted in the states collecting far smaller revenues than they should obtain from personal property, and have created situations which put so large a premium upon tax evasion that evasion is the rule.

While the Taxation Committee has held no meetings, by reason of the absence of specific work for it to undertake this year, the committee has nevertheless kept in touch with the progress of the movement for modern taxation systems and wherever opportunity afforded has done what it could to further the movement.

Early in the year effective work was done in Massachusetts, Mr. Barrett Wendell, Jr., of Messrs. Lee, Higginson & Company, being among the members of the Association largely instrumental in securing the adoption of the state income tax in that state. The Massachusetts law represents a decided advance in a number of respects over any previous income tax legislation.

In co-operation with the Civic Federation and the Illinois Tax Payers' Alliance of Chicago, in connection with the campaign for a new tax system in Illinois, the Committee has done its full part to date and anticipates doing considerably more before the November election.

In New York state the movement for a better system of taxation has made a great deal of progress in recent years and is in such strong hands that the Committee did not feel itself in a position to add materially to the work already under way.

In numerous other states the agitation for tax reform is strong and is taking sufficiently definite shape to afford the opportunity within the next year or two for formation of concrete plans to bring about better conditions.

The Committee is strongly of the belief that any system of taxation which recognizes the principle of separate classification of personal property improves the position of the investor and accordingly deserves the Association's support.

In view of the great variations encountered among different communities in their tax conditions, the Committee does not feel disposed to recommend any particular plan of reform as applicable to all of the states. It recognizes, however, that at the present time state income taxation is the method receiving the greatest attention from all interested, and it believes that on the whole such a method of obtaining public revenue from intangibles gives promise of fairly satisfactory results to both the state and its tax-paying citizens.

Your Committee has compiled a large amount of data relative to existing state taxation methods and relative also to the practical working out of the new methods

adopted in recent years. Eventually this data should be made available in published form for all the members of the Association.

Respectfully submitted,

WILLIAM L. ROSS, *Chairman.*

Mr. Ross: Mr. President, that is the purely formal report of the Committee. It was the hope of your Committee to have a little discussion on two questions: one, the benefits which are accruing to the investor from these modern taxation systems; and the other, the question as to the extent to which this Association should lend its efforts through its officers and committees in such state campaigns. In addition to that, we hope to have some remarks from several members of the Association who are particularly familiar with taxation conditions in their own states.

The first question that occurs to all of us in connection with any tax change looked at from our own selfish interests purely, is whether the position of the investor is so improved that it makes it worth while for us to become active from a business standpoint in asking for these changes.

A great many of us are conducting a more or less national bond business. We are subject to the variations in tax conditions in many states. We find that we have our markets limited in certain states by certain peculiar legislation on this subject, and a peculiar market given to us on securities. In the few states which have adopted one of these several forms of modern taxation, that situation has been very greatly altered. The situation in the first state to adopt the Income Tax,—that of Wisconsin,—was improved there very largely from the bondholder's standpoint, so that it is fair to hope that a similar improvement will come in other states following that lead.

There are at least five states now actively planning the abolition of the basic requirement which was in the Constitution of so many states, that all property should be taxed on the same basis. It was impossible to secure legislation in a great many states because of this constitutional situation, and it has been necessary to finance and conduct a campaign not merely to get legislation but to remove the blocking provision of the Constitution that prevented anything from being done. A question brought up very frequently is, "To what extent can this Association take part in these state campaigns?" It has been found quite impracti-

cable to date, at least, for the Association to do so, in any large way. State campaigns are very expensive; the campaign in Illinois, for instance, now under way, is costing many thousands of dollars, and it is quite beyond the means of this Association to contribute heavily to carrying on such a campaign. The Chicago and other Illinois members of this Association, however, are contributing very substantially to it, and are working harmoniously to carry the amendment of the Constitution. The State of which we are now guests has had a very remarkable set of tax laws enforced by a constitutional situation, and with the Chairman's consent I would like to ask Mr. Warren S. Hayden, of Hayden, Miller & Co., to tell us something about that particular feature. (Applause.)

TAX SITUATION IN OHIO

WARREN S. HAYDEN
Hayden, Miller & Co., Cleveland

Pending some amendment which we are hoping for from year to year, the Constitution of Ohio forces upon this State that scheme of taxation which is briefly called the General Property Tax. The Constitution requires that all property be returned for taxation at its true value in money, and that all property subject to taxation be taxed by uniform rule. If the tax rate is one per cent, all kinds of property are taxed at one per cent. This is not the time nor the place to discuss the policy, good or bad, of that way of doing. My guess would be that we here are all agreed that the general property tax is an ancient and outworn device—if, indeed, there ever was a time when it was a praiseworthy method,—and that almost any other way is a better way, and that any one who favors any other way is a friend of tax reform.

Here in Ohio we have been busy for generations without interruption in an attempt to have the Constitution amended. In 1908 we came very near to success. We have tried perhaps twice since then, but we have failed. We have been hoping that the progress made in some other states, notably Massachusetts, would strengthen our cause in Ohio. We are looking for some early and favorable influence working our way from Illinois. But there has developed a problem common to our larger Ohio municipalities which gives me some hope, by reason of the very distress of the case, that we shall in the near future find a better answer to this fundamental question of finance. Of course, it is not boastful to say that the State of Ohio has sufficient wealth, so that if that wealth were reasonably subjected to taxation there would flow into the public treasury enough money to take care of all proper public requirements, and yet it is perfectly true that there are many cities in Ohio which are regularly showing operating deficits. The total of deficits increases from year to year, but, of course, a day of reckoning must come. The new thing in a situation which has existed for years is that the day of reckoning seems almost immediately at hand, and I for one have not a tear to shed. I hope that it will attract the attention of every thoughtful person in the State, and that we shall be obliged

of 30 per cent in the instance cited. I dare say that nowhere in the world, now or at any time, except in the most acute moment of war, has any government thought an income tax of thirty per cent tolerable, and yet substantially this is what the general property tax means in Ohio to-day to the investor in a taxing district whose rate is that of Cleveland. That amount of burden is intolerable. The traffic will not bear the charge. It does not, cannot, will not pay it. It is of no use to talk about it. It has been tried for generations, and it cannot be done.

So, as I said a little while ago, we are hoping that these things will be more carefully examined by more and more people, and that we shall soon find a solution which will enable us to bring into the list of taxed things all the things that ought to be taxed and whatever that solution is it must burden each subject reasonably according to its kind.

Just one word more and I shall have finished. In our efforts in recent years we have looked toward tax reform through classification of property for the purpose of taxation. It has seemed to me that latterly the income tax plan has been gaining ground, and I shall not be at all surprised at tax reform in Ohio along that line. The appeal of the income tax to the general sense of reasonableness of the people at large is very strong. It appears to put the burden with ratable equality upon the backs that can best bear it. Then, too, there is always a fear in some quarters that classification is a step toward single tax, and that, of course, brings out the opposition of the agrarian interest. Perhaps in this State it will be found that an income tax scheme is the best practicable solution.

We shall await with a great deal of interest developments in Massachusetts, where I understand something is being done along that line. (Applause.)

Mr. Ross: I am sure the Association realizes the tremendous importance of New York in this matter of such changes in taxation systems, as to render the position of the security holder a little more pleasant. Mr. Hodges has worked a great deal to secure better taxation conditions in that State and we should be very glad to hear from him as to the outlook for taxation reform in that State.

TAX SITUATION IN NEW YORK

GEORGE W. HODGES

Remick, Hodges & Co., New York

The Tax situation in the State of New York has for years been in a very chaotic and unsatisfactory condition from the standpoint of the local tax officials, the State Tax Department, and the public at large and there has been a general demand in the last two or three years for a general revision of these laws on a sane and equitable basis.

The New York laws provide for the levying of a tax on intangible personal property at the general property tax rate, which is a method now considered by the best authorities on taxation to be unscientific and impracticable, and I think the result of the 1916 assessments in New York City is confirmation of this belief.

For a number of years the real estate valuations of the city have been increasing steadily, until in 1915 they amounted to \$8,100,000,000. The personal estate valuation was \$352,000,000. In 1916 the real estate valuations increased approximately \$100,000,000, and an effort was made to increase the personal estate valuations very materially. As a matter of fact the original assessment on personal property shows an increase of approximately 1000%. Ultimately, practically all of this latter increase was sworn off and the total increase of personal estate taxation as finally confirmed was only \$24,500,000 more than in the previous year, 1915.

It is interesting to note that the valuations of New York City in 1905 were:

Real Estate.....\$5,221,000,000

Personal Estate..... 690,561,000

showing an increase of real estate valuations of 57% and a decrease in personal estate valuations of 45%. This is a clear illustration of the impossibility of equitably taxing intangible personal property.

To devise a better system of tax laws, the Legislature of 1915 appointed a Commission to consider the whole situation and report to the Legislature of 1916. This Commission with Senator Mills as Chairman, held many hearings during the Summer

and Fall of 1915 and made a very comprehensive and able report, supplemented by a Bill, providing for a state income tax in substitution for the intangible personal property tax and also harmonizing many of the other injustices and uncertainties of the old law.

This report was referred to the proper Committee, but for various reasons, which had little to do with the merits of the question, the Bill died in committee. The Commission was reappointed with instructions to further consider the subject and report to the Legislature of 1917. Up to the present time, no public work has been done in anticipation of this second report, although it is probable that further hearings will be held before the Legislature convenes in January next, and I believe the reasons which caused the Bill of 1916 to die in Committee will not obtain in the coming session. Whether or not the Bill will be adopted in the form recommended last year, it is difficult to say.

New York State is peculiarly located, so far as the geographical distribution of valuations is concerned — in that over 75% of the valuations lie in the little peninsula comprising the so-called Greater New York.

The assessments in the City are understood to be generally 100% of valuations, while the "Up-State" valuations are understood to average at perhaps not over 70%, and in very many localities a much lower percentage of the actual valuations. Any radical change in system of taxation is liable to meet with the opposition of the Up-State people, who fear that their tax bills will likely show material increases.

I have no prophecy to express to the Association of what the result will be, but I think we have reason to be fairly hopeful that 1917 may see some actual progress made toward some form of income tax law which will adjust many of our difficulties and will relieve an embarrassing situation, and also be a model of value to other States considering changes in their tax laws.

I thank you. (Applause.)

Mr. Ross: Is Mr. Veech here? Mr. Veech, can you tell us something about the proposed changes in the Kentucky tax situation?

Mr. Veech (United States Trust Co., Louisville): We have had a general property tax in Kentucky. New laws were passed,

but they were decided to be unconstitutional. Last year there was an amendment to the constitution and the Legislature appointed a committee to formulate the tax law and submit it to the next Legislature.

Our tax laws on personalty are just about as bad as they can be. Our tax rates are about two and a half per cent, and the truth is they do not get any tax on personalty at all. The committee of the Legislature has made a pretty thorough investigation of the laws in other states, and we hope that in the next legislature we shall have recommended a law which will give us some relief.

Mr. Ross: One very large State, from the investment standpoint, has actually reformed its taxation system this year,—Massachusetts. I would like to ask Mr. Barrett Wendell, Jr., to tell us what was adopted in that State.

TAX SITUATION IN MASSACHUSETTS

BARRETT WENDELL, JR.
Lee, Higginson & Co., Boston

I have here a very thorough discussion of the new Massachusetts Tax Law, prepared by Mr. Whiteside, Secretary of the Tax Association, but I think it is too long to read,— I will read a little of it. (Laughter.) (Reading) “The old scheme of taxation in Massachusetts was just what Mr. Hayden has described as existing in Ohio. It varied from \$3 a thousand in what are called tax dodge colonies, small places on the Cape to which a few of the rich rush on the day before taxation, and return on the day after. (Laughter.) In certain of the hill towns in the western part of the state, from the year of 1780, when the Constitution was adopted, until this year, there had been no change in the system of taxation. By the Constitution as adopted at that time, the legislature was given power to propose and levy proportional and reasonable assessments, rates, and taxes upon all the inhabitants of and persons resident and estates lying within the said Commonwealth. The word “proportional” was so construed by the Massachusetts Supreme Court that it was impossible in any taxing districts to tax one class of property at a different rate from another. Taxes levied in Massachusetts were State, County, City, or Town. Hard work was done to get the word “proportional” out of the Constitution, but nothing was accomplished because the ultra-conservative people did not know where it would lead them, and the radicals thought it was a method for the rich to escape taxation. There were two or three futile attempts to do something.

“Then, I think it was about in 1913, chiefly owing to the work of Professor Bullock of Harvard University, the Massachusetts Tax Association got started and they worked until this year, getting the Constitution changed and the new tax drawn. They did a mighty good piece of work. They have established very friendly relations with the State authorities, and they are now being asked to furnish committees to the new State Commissioner who has just been appointed, the Deputy Tax Commissioner in charge of the Income Tax, to work out with him regulations which will be clear to everyone.”

This Income Tax is not a straight income tax; certain things are exempt. It does not touch real estate at all, or mortgages, or any of that sort of thing. It does not touch property formerly tax free, but it does levy a tax on incomes derived from what were formerly taxable securities, which were bonds, stocks and so forth. It works an injustice to the investment bankers and the national banks, but that could not be helped. I will just read you this brief summary of the law: (Reading:)

"Returns must be made.

"(a) If any income is received under paragraphs (w), (x) or (z) below, or

"(b) If income from all sources (excluding income exempted in paragraph (v) below) exceeds \$2,000 annually.

"Returns must be made by March 1 of each year (beginning 1917) covering income for the preceding calendar year.

"Additional tax for not filing a return is \$5 a day for every day of default.

"Tax bills will be rendered on or before September 1 of each year and will be payable on October 15th.

"Returns must include entire income except from:

- (a) Real Estate.
- (b) Interest on savings deposits in Massachusetts.
- (c) Interest on United States Government bonds.
- (d) Dividends and interest upon securities tax-exempt under existing laws.
- (e) Loans or mortgages on real estate in Massachusetts.
- (f) Wages or salaries received from United States Government."

Without attempting to give details, we summarize the tax on incomes as follows:

"(w) Six per cent on interest and dividends received excepting those from tax-exempt securities. The tax will be assessed upon the net amount received, that is, less interest paid, but interest paid on debit balances at brokers will be limited to 80 per cent of the income from the securities pledged as security."

They changed the law in Massachusetts in order to prevent a stock exchange house keeping a separate interest account which went along all the time for each customer; for the purposes of taxing, the law says that the securities shall be the property of

the buyer. He is taxed on the income from those and can set off against them up to 80 per cent.

“(x) One and a half per cent on annuities, with an exemption of \$300, in case total income from all sources is not in excess of \$600.

“One and one-half per cent on excess over \$2,000 of net income from professions, employments, trades and business,”—except doing the investment banking business, and then you get stuck with 3%.” (Laughter.)

The principal object in that — it is down here “three per cent on excess of gains over losses, from purchases or sales of securities and other intangible property”—the chief object in putting that into law was to tax people who bought and sold and made an income that way out of securities, which were not paying dividends or interest. Then they continued to charge national banks at the old rate. There was quite a protest on that from the national banks, but they finally let it go through. I do not know whether you want to go into that in detail.

Mr. Ross: Is that printed, Mr. Wendell?

Mr. Wendell: I have this printed; but if any State should contemplate undertaking such a campaign, I believe it would be well for them to communicate with Professor Bullock, or with Mr. Whiteside,—who is the secretary of this committee, and who is a very capable lawyer in Boston. I think it is principally due to the efforts of these two men that this law went through.

Let me see if there are any other points. Of course, towns have been very much worried; the towns still tax all the local real estate and tangible property, but they do not have any power of taxing intangibles, and they have been very much scared that they would lose income from it. There is an agreement during this first year that the State will give back to the towns the difference between what they get now under the new taxing basis, and what they got in the year 1915,—I think it is. They did not take this year 1916, because all the towns, knowing this was coming into effect, would have taxed as hard as they could, so they took the year before. (Laughter.) I do not think there is much more in it.

Mr. Ross: Gentlemen, there are a few minutes remaining for the consideration of this general subject of taxation. If there are

any questions to be asked that can be answered by some of us here, we shall be glad to do our best.

The President: This question of the extent to which this Association, through its general committees, should take part in campaigns for tax reform is a question that is very much in line with the question of what the Association should do in State matters, and it is really a point on which discussion might be profitable.

The policy heretofore pursued by the Board of Governors has been to have the Association, through its central committee on legislation and taxation and other matters of similar character, act as a general clearing house to help in advising local tax reform associations and other bodies which are doing the active work. In a few cases the work has seemed of such great importance that this Association has had to take a leading part, but its policy heretofore has been to be of a sort of general clearing house and adviser to local organizations in conducting campaigns of this character. If the delegates have any views as to what our policy ought to be we would like to hear from them.

Mr. Ross: The Committee, from its own work on this subject, has found no cause to quarrel with the attitude that the Association has taken so far in this matter. It feels that the great burden and expense and labor in connection with these tax charges must come primarily on the people resident in those particular states, or doing business in those states, and most directly to be benefited by it, and it has no recommendation to make for any change in the policy of the Association. One reason why this question was brought out and emphasized at this time is that there has been a great deal of inquiry regarding this very matter from various parts of the United States. I think you will all realize that both the work and the expense involved in these state campaigns are far beyond the ability of this Association to furnish as an Association.

The President: The Program Committee has no further business for this afternoon, unless some of the delegates have something they want to bring up. We will take a recess until tomorrow morning at nine o'clock.

TUESDAY MORNING SESSION

OCTOBER 3, 1916

The President: The convention will please come to order. We will listen to the invocation by Rabbi David Philipson. Kindly rise!

INVOCATION

RABBI DAVID PHILIPSON

Rev. David Philipson (Rabbi K. K. Bene Israel, Cincinnati): Almighty God, Father of us all; Thee we adore; Thy name we praise. The past, the present, the future lie revealed before Thee Who art Supreme Mind, Supreme Will, Supreme Love. Earth with her myriad voices, the suns, the stars, the worlds beyond, join in the great chorus of praise unto Thee the Creator. In the presence of all this power, we the creatures of today may well feel humble, but yet we are not cast down, for with us abides the faith that Thou art good and Thy mercy lasteth to eternity; and because of this we are conscious of the fact that there is so much that we have that we should be thankful for.

We thank Thee for all the beauty, the kindness and the love in the world. We thank Thee for every noble thought that is entertained, for every fine deed that is done, for every upright feeling that is indulged. We thank Thee for the men and the women who give themselves unto the good of their fellow men; who go out to bring cheer to the burdened; relief to those who are in need, and help to those who are in want.

We thank Thee for every opportunity that comes to us to show that we are appreciative of the privileges that are ours, for every privilege implies some responsibility. And so these children of Thine assembled here in meeting, having great privileges have also great responsibilities. Enable them, our God and our Father, to rise to these responsibilities, and being in high places of prominence grant that they may be examples unto those with whom they come into contact; being in places of trust, that they may make those with whom they come in contact feel that they are worthy of that trust. Throughout this country this work of theirs will then bear the highest fruit, so that the people may feel that the men in these positions are worthy of them.

So help us all to meet our responsibility that we may understand we do not live by bread alone, but by those higher things that are implied by the love of the Spirit, the trust, the faith and the belief. Be with these men in their meetings here, that they may be guided by the highest principles. Be with them as they leave our city to go to their homes. Bring them safely unto those homes and to those whom they love and who love them. Be with us all as we go to our separate labors, that as children all of the one God we may give praise to the Lord, the one God, everlasting, without end.

The President: We will take up the report of the Real Estate Bonds Committee. Mr. Otis, the Chairman of that Committee is detained this morning, but he asked the Secretary to present the report.

(Secretary Fenton read the following report):

REPORT OF REAL ESTATE SECURITIES COMMITTEE

Your Committee on real estate bonds last April submitted to its various members a compilation of data on the subject with which the Committee is directly concerned. This communication is necessarily the basis of the report we are now about to make, and, in the absence of any particular suggestions upon the preliminary compilation, the Chairman takes the liberty of embodying its principal features into a formal report. Broadly speaking, the scope of the Committee no doubt includes effort to bring about improvement in legislation, particularly in the direction of greater uniformity. It would also seem that efforts should be of more avail through concerted action in the direction of federal legislation instead of trying to alter or patch up or harmonize the present state laws.

First: We recommend the appointment of the subcommittee to take up with the proper committee of the lower House of Congress the matter of seeing what could be done in the direction of national legislation. In this connection, we make supplementary suggestion that the proper legal talent be consulted probably before this subcommittee undertakes any definite work; that is to say, such a committee should have pretty complete legal advice as to proceeding with any national lobby. It might be that suggestion of any effort along national lines will not be found practicable, but if found so, in our judgment, it would be well to proceed along broad and vigorous lines.

Second: We would recommend in particular that all states follow the example of New York, Pennsylvania, and Ohio, wherein the mortgagee has full control of the property as soon as necessary legal steps can be taken—a feature which has done much, indeed, to render popular the foregoing states as fields for loaning operations and, no doubt, it is an influence in the direction of lowering interest rates. The laws of many states should no longer make it practically impossible for mortgagees to sell their interest in foreclosure before the end of long redemption periods.

Third: We recommend effort in the direction of modifying present laws on the subject of interest rates—a lower maximum legal rate in some states and a higher one in others. In brief, law should be amended so that the legal rate of interest per annum can be higher in territory where new capital is in demand for the purpose of injecting new energy and purpose into farming and the building industries. For instance, in Connecticut, where competition makes it difficult to secure better than 5 per cent under sound mortgage investments, the state law permits a maximum legal rate of 12 per cent per annum, whereas in North Carolina, Tennessee, and Kentucky, where new capital could be relied upon to give new life to farming and other industry, it is impossible to get legally a higher rate than 8 per cent per annum.

Fourth: We recommend that steps be taken to solve the problem presented by the state system under which property is exempt from levy or attachment—what we generally call homestead exemption. A summary of the great extent to which losses in this respect differ in the various states has made some writers express themselves to the effect that it seems impossible, therefore, to make the loans with any degree of safety, although in many of the states the homestead exemption can be waived.

Fifth: This Committee recommends the appointment of a subcommittee for the censoring of advertising of real estate bonds by members and non-members of the Association, in order to put a proper check on irresponsible and flamboyant promotions. While the better class of houses handling this type of bonds are not a subject for criticism in this respect, it is, however, an unfortunate fact that a number of smaller and less responsible firms have used methods of advertising of the most flamboyant nature, which cannot but injure the cause of real estate bonds in general. A great movement is on foot in the direction of clean and honest advertising. The New York Stock Exchange, with its recent restrictions on advertising of its members, has aimed at greater protection to investors. Of course any censorship of advertising must be judicious and carefully considered, and must not err in the direction of too great conservatism. Nevertheless, this is an important part of our recommendation because publicity in this direction is certain to call attention to our efforts in the direction of a new ideal and a new era in the sale of real estate bonds.

Marketability for this class of securities would come with increased confidence, and the field is golden because land is after all our real basic value. We can readily imagine the opportunity in bonds predicated upon real estate when we consider the surprising increase in the volume of building operations in this country. It is one of the best gauges of the degree of confidence with which a nation views its own immediate future. Between August, 1914, and the preceding month there was registered a sheer drop in building permits of over \$16,000,000 — to be exact, from \$50,617,332 to \$34,168,381, or, expressed in percentage, a decline of over 32 per cent. About 2 per cent represents the average seasonal decline in those months. *Viewing the situation, however, over a longer period, we find that a compilation made of the building permits issued for twenty leading cities shows that they amounted to many millions more for the first six months of this year than for any similar period in the last nine years, with the solitary exception of 1909, when we were emerging from the depressing results of the financial panic of 1907.*

In conclusion, it is clearly impossible to enumerate the duties of a subcommittee on legislation, but necessarily a vast amount of the detail work in this connection would have to be allotted to it. The committee should, no doubt, have headquarters with a Secretary in charge. In fact, there should be a bureau both on publicity and information, through which members of our Association may become better acquainted with the entire subject of real estate investment, and also that the public may become more familiar with this most important subject — important to them as well as to ourselves.

Respectfully submitted,

CHARLES A. OTIS, *Chairman.*

The President: Gentlemen, the report is received. There is only one subject there that requires the action of the Association as a whole, and that is the question of the recommendation of the Committee on censoring advertising. It is a broad question, and it does not apply solely to real estate bonds; the same question applies to all advertising. We should not attempt to censor real

estate advertising and leave public utility or railroad advertising alone.

It is a question that the Board would not care to take action on without some expression of opinion from the general organization. The theme is open for discussion.

I might say to some of you who may not be advised, that pursuant to a report of a special committee, appointed at one of the former conventions, the Board has appointed a secret Committee on Business Ethics, and before this committee are laid any complaints of members' actions and practice, for investigation and report, so we have a medium for taking up specific cases. This Committee, however, does not undertake any original work. The question whether we ought to censor advertising, of our members or try to correct misleading advertising on the part of outsiders, is open for discussion.

Mr. Hodges (Remick, Hodges & Co., New York): Mr. President, on this question it seems to me if you call it censorship it may be using a name that is rather wide, but in any event the purpose is very desirable. We all recall that New York State, and in other states, we have had a great deal of hostile legislation, and when an agitation takes that form it is very difficult to prevent it going much further than is desirable or necessary. Is not this question of unfair advertising a very important one for us to take up as a preventive measure of the next step which the public or legislatures may attempt in advocating new legislation? By doing something in this line we may save ourselves a great deal of trouble at a later date.

Mr. Brooks (Brooke, Stokes & Co., Philadelphia): I believe if we undertake to go into the censorship of advertising, we get into very deep water. I think as a rule, flamboyant advertising takes care of itself pretty well; that people generally judge a house by its advertising, and it does not seem to me that it is necessary for the Association to take any action as to the censorship of advertising.

The President: It is a matter that has been up before the Board a number of times, and it has never been willing to take any action on it, but would take action if the whole Association so instructed them.

Mr. Stacy (Stacy & Braun, Toledo): I do not think that this Association should adopt any rule with respect to advertising. If all the members of the Association will review the advertising carefully, and if they find anything report it to the Association, and report intelligently to it, the Committee can take action. That seems to me is about all that this Association can do in the matter.

The President: That is the practice at present. If anybody objects to the advertising of another member, they have a medium by which it can be investigated.

Mr. Martin (Estabrook & Co., Chicago): I think it would be well to put in the Bulletin the mode of procedure which a house should follow, if they object to a man's advertising or see something which they think irregular, and have it explained, so that anyone would know just what to do. I suppose the procedure would be to send a copy of the advertisement and state the errors in it, but to whom should it be sent?

The President: The Secretary.

In that connection, I think we would all be better members of the Association if we would read the Bulletin more carefully and more regularly. (Applause.) Is there any other viewpoint on this subject?

If there is no further discussion of this matter we will pass it, leaving the procedure as it is at present. We will now listen to Mr. Chamberlain, the Chairman of the Committee on Education.

REPORT OF THE COMMITTEE ON EDUCATION

As the result — immediately — of a letter from a member of one of the large eastern firms addressed to the Board of Governors, at their meeting six months ago in Baltimore, and as a result, more generally, of suggestions coming from time to time from various members of this Association in different parts of the country, the Committee on Bond Education, consisting of Mr. A. W. Bullard, of Chicago, Mr. E. W. Bulkeley, of New York, and the Chairman, was appointed by the President, to consider what undertaking by the Investment Bankers Association, if any, was appropriate and feasible to equip more thoroughly and at less expense of time and effort than hitherto, new recruits to our business, particularly those who represent us among investors.

The thought in one shape or another was not new to the Board at that time. Ever since the Association was formed, or shortly afterward, there have been repeated expressions of belief that this Association could underwrite its future far-sightedly, as well as the future of this business in general, by rendering thoughtful service to the bond men who must do our work, and who must take our places, in shaping the American investment banking of the decades to come.

There is no way by which sound financial practice in this country in business dealings and in legislation can be attained more quickly than by education of the investment buyers, through the education of the investment salesmen.

Although thoughts of this character were in the minds of most of the members at Baltimore when the Committee was appointed, there were undoubtedly some who believed that associative action might be inappropriate, for one or more of the following reasons: First, that practical experience is the only teacher worth while when one is actively engaged in business. Second, that many houses would prefer to teach their men along their own peculiar lines and in their own securities. Third, that the undertaking would entail a great amount of expense and would unnecessarily increase the number of our altruistic activities.

The first work of the Committee was to ascertain the sentiments of the Association. Most of the delegates present probably have seen the letter of inquiry addressed to each office of our membership. This letter asked for a full and frank opinion as to whether, if feasible, it was well for the Association to undertake educational work and whether the members would be willing to support the undertaking by encouraging and defraying the expenses of salesmen, who take the course or courses. Also whether the members addressed believed that instruction by correspondence was practicable. Other questions were asked which may be passed at this time. The result was more astonishing to the Chairman perhaps than to the other members of the Committee, particularly, Mr. Bulkeley, who probably has devoted more thought to training bond salesmen than any other man in the business. From a great majority of offices we received intensely interesting replies. Since that time we have received many inquiries as to the result of the quiz.

Naturally some branch offices deprecated the necessity of committing themselves as to an opinion, which might conflict with the opinion of the main office. Others were frank to admit their experience was insufficient to warrant a definite

stand. Of the replies received which can be interpreted as a vote, 85 per cent were in favor of the adoption of some plan. Most of this 85 per cent expressed themselves as tentatively willing to support the plan in some practical way. Even three of those who opposed agreed to support any plan in which the majority concurred. In passing, it might be well to state that virtually all of those answering the questions specifically believed that training in this business can be accomplished by correspondence.

The Committee realizes it is easier to say yes than no, and that 85 per cent may be too high a ratio to expect in favor of a Utopian movement in any business men's association. The figures must stand for what they are worth. You have a chance to affirm or repudiate them at this meeting. But whatever the numerical ratio may be the letters received are proof conclusive that at least a substantial majority of the correspondents are in hearty accord with the idea of educational work as outlined in the letter.

Therefore as far as the Committee was concerned this vote left no question regarding the propriety of formulating plans, which it did, and laid before the Board of Governors three months later at the meeting in Kansas City. In brief, the plan called for the publication of a series of texts as in any business correspondence course, those taking the course to have, if they chose, a check and a guide on their reading by answering questions covering the subject matter of the text. This subject matter was to cover various common types of investment bonds, and preferred stocks, and also routine problems of transfer, registration, delivery, etc., with probably discussions of selling method, etc. The text and the conduct of the course were to be overseen by the Committee on Education, but the work actively conducted by a salaried man.

The cost of the undertaking was to have been borne initially by appropriations from the general fund, but no contracts were to have been entered into until the undertaking had been underwritten by subscriptions from houses availing themselves of the course, or by subscriptions from the men direct.

It was evident at the Kansas City meeting that the plan of the Committee as an initial undertaking was too ambitious to be convincing, the outlay involved too great, however complete the underwriting, and that the Association ought not to be committed to a course of action from which retreat might be embarrassing. Therefore, the problem was handed back to the Committee for further digestion and for report in Cincinnati.

Interest has not waned; the Committee has been in receipt of numerous letters asking as to the outcome of the work, that local educational plans might be laid for the coming year. Some wished to subscribe to correspondence courses already established, but have deferred awaiting our own plans.

During the last three months the Committee has worked hard to solve the various difficulties involved. It now believes that by minimizing the amount of publication and of direct service of a correspondence character, and by committing the Association publicly to no educational program until this has been worked out in its full details, that most valid objections have been met.

Therefore it recommends the compilation of a digest and syllabus of financial literature bearing on investment banking and particularly on securities and security selling, and the mapping out of a course of study based on the more easily ac-

cessible texts referred to in the digest. This syllabus and bibliography would have two distinct parts and aims.

First, and immediately more important, would be this education in the narrower sense. It can be written to cover the spare time of the salesman of average intelligence over a period of six or eight months, indicating how he is to study, and where the material is, and supplementing the present accessible material, where it is lacking. The second object would be a by-product, so to speak, of the first, namely, to direct the attention of firms to sources of supply of information bearing on the big problems involving financial policy, etc. We all know that when the war broke out Wall Street's analysis of the result on prices and interest rates was not a thing to be proud of. The answer was to be had, but most people did not know where to get it. Witness the efforts of the Publicity Committee at that time to obtain Government bond quotations during and after previous European wars. All these sources referred to would not necessarily be textual. Some of them might be institutional. For instance, under this head it would be a duty to point out such sources as The Commercial Museum of Philadelphia, about which you heard yesterday. The only printing involved during the first year would be the syllabus and any subject matter, as already described, not easily accessible in book or pamphlet form, and any subject matter that has not been adequately treated in previous texts.

The only cost apart from the cost of publication would be the salary of a man thoroughly competent to compile this matter under supervision. He naturally would be a bond man and presumably would give his entire time to the work. If we can find the right man, and we would not undertake this unless we could find the man, we should finish this work in the next twelve months, so that by the Fall of 1917, every bond house so choosing could carry a course for its men based on this standard course, but modified to suit its own needs and purposes.

By next Fall arrangements can also be made, if desirable, with three or more universities rightly located geographically, by which they would start correspondence courses under an instructor appointed at the suggestion of the Educational Committee — courses which would be available not only to our members but to numberless young men who are beginning to prepare themselves for financial work in this country.

It would be available for lesser educational institutions if desired, such as our friends the American Institute of Banking. It could be used in the financial courses given by the Young Men's Christian Association, and in extension courses in the financial districts under the auspices of the financial houses, such as we have in New York City now. As far as the universities are concerned, lecture courses in investment and finance are becoming very general. Correspondence courses under university guidance are the next development. Boston University begins this Fall; the University of Wisconsin is interested. We discussed our ideas with the Director of Extension Teaching of Columbia University. He expressed great interest and thought that the University would co-operate with us if we desire, although this would be the first correspondence work undertaken by this institution.

The plan of the Committee on Education calls for the appropriation of a limited sum of money from the general funds of the Association for one year and for one

year only. It involves no solicitation of funds from the membership, yet the possibilities of development along educational lines resulting from this small beginning are beyond measure. Although we are first and always merchants of securities, for years we have striven in our advertising and elsewhere to be recognized as financial advisers. All advising cannot be done in the home office by mail. Then, it is the salesman who sells the goods, and it is the salesman who does most of the advising.

It is logical, if it is not imperative, that if we are to live up to our rôle as investment advisers, we must give our representatives an opportunity to fit themselves for their work.

Therefore, the Committee on Education has recommended to the Board that it make the necessary appropriation to cover the completion during the coming year of the plans as outlined above.

Before the decision is made, the Board wishes the delegates to have an opportunity to discuss the matter and to register their opinion.

To bring the matter before you in definite form, it will be in order after the discussion for someone to move that the Report of the Committee on Bond Education be accepted, and that the Board of Governors expresses or does not express the will of the Association, if it votes appropriating the necessary funds to carry on the plan.

Respectfully submitted,

LAWRENCE CHAMBERLAIN, *Chairman.*

(Applause.)

Mr. Parsons (Marshall & Co., Boston): If you will pardon the personal illustration, I can give you an example which I think might be considered in the nature of evidence and of proof that the Committee's plan is something that this Convention should heartily endorse.

For three years I have been taking a course on investments in the Boston University. The College Administration has two sessions, one in the day time and one in the evening. The evening school is made up largely of men working in offices in the day time. In last year's course out of forty-five men fifteen were from industrial houses and financial institutions. Many of those men were members of this Association.

I tell you the fact that those men were doing independent night work is significant of the fact that their own firms could not or were not offering them all the equipment they wanted. Many of you have probably had similar experiences.

I think the Committee, based upon that case and similar cases, should be authorized to go ahead and work out a proper plan.

Mr. Prichett (Frazier Co., Philadelphia): Mr. Chairman and Gentlemen: It seems to me the Association would be warranted



JOHN E. OLDHAM
Merrill, Oldham & Co., Boston



GEORGE W. HODGES
Remick, Hodges & Co., New York



LYNN H. DINKINS
Interstate Trust & Banking Co.
New Orleans



JAMES N. WRIGHT
James N. Wright & Co., Denver



in making an appropriation at this time, principally on account of the likelihood of change in our business in the next year or two in the foreign field. It seems to me we will probably want a great deal of detail matter on foreign investments in Russia, England and France. We will probably want to secure a great many facts not now available, and if we had a central clearing house of this kind it would be valuable I think to the members in obtaining needed information.

The President: Is there any further discussion of this subject? (No response.) Is someone ready to present a resolution?

Mr. Prichett: I offer the resolution.

The President: Endorsing the work?

Mr. Prichett: Endorsing the work.

The President: And requesting the Board of Governors to make suitable appropriation?

Mr. Prichett: Yes.

Mr. Wright (H. P. Wright Investment Co., Kansas City): Would it not be well to state how much money might be involved in this?

The President: The estimate of the committee is \$5,000, which is a material proportion of our expenses but well within our current budget. Our annual income is something over \$35,000; our normal expenses at the main office, the Secretary's office, for printing, etc., run to \$18,000, our legal work runs to \$10,000. So that our normal expense is about \$28,000, and we have \$8,000 in hand.

Mr. Foster (Sweet, Causey, Foster & Co., Denver): As I understand the resolution which has been presented it is to request the Board of Governors to make this appropriation. It seems to me that it would be better to state that it is the sense of this meeting that if, in the judgment of the Board of Governors, this should be done, that they may do so.

The President: Do you accept the amendment, Mr. Prichett?

Mr. Prichett: I accept it.

The President: Is the seconder willing?

(Secunder agrees.)

The President: The motion then is that it is the sense of this meeting that it is a good thing to do.

Mr. Bulkley (Spencer Trask & Co., New York): As I understand, the Committee has felt that in two or three years some of

that money might come back. The Associated Advertisers carried out a like scheme; they appropriated an original sum of money for advertising, and I understand they have received the original sum back with some profit. I think we should hope to get some of this money back.

The New York University, Wall Street Branch, has gone around among certain interested parties and asked for a similar proposition, where we have had to get men from out of town and guarantee them more than the usual amount. I think this Association would be amply justified in appropriating some money, not with the idea of getting it back but with the idea of getting a fair amount of it back.

The President: There is no doubt such a work should be self-supporting, but there is a little gamble at the start.

Mr. Bodell (Bodell & Co., Providence): I would like to ask if the Committee has thought of making any alliance with the American Institute of Banking. They have, after fifteen years of work, prepared a correspondence course which is now working very successfully.

The reason I ask that is that last winter the bank clerks themselves got up an organization and asked one of the partners of our firm to take charge of a class for one week, and they limited the class to fifty bank clerks. It was entirely subscribed for and they had a number of others who wanted to come in. They had meetings every week for 15 or 16 weeks, and the average attendance was 42. Every man there was a member of the American Institute of Banking. The meetings were so successful they are planning to continue the work this winter.

In view of the fact that the expense of starting this work is so great, and in order that duplication might be avoided, it might be well to co-operate with that body.

The President: Can you offer anything, Mr. Chamberlain, in reply to the suggestion of co-operating with the American Institute of Banking?

Mr. Chamberlain: We have thought it advisable for the first year not to ally ourselves with any other institution, particularly because we thought we should set a standard which would influence others, rather than that we should be influenced in our standards by others.

I know a great deal of the splendid work that has been done by the American Institute of Banking in investment lines, and I think we can learn a great deal from them during the course of the coming year. When we get deeper into the problems involved in this work, we can see better to what extent we can avail ourselves of their work.

Mr. Dinkins (Interstate Trust & Banking Co., New Orleans): I am much in favor of Mr. Chamberlain's views. I think, however, it might be a mistake to commit the Association to an appropriation of \$5,000.

The President: They won't appropriate it unless they have the money, as that is left with the Board of Governors.

Mr. Dinkins: I wanted to inquire whether it would be practicable for the Secretary to take a vote by letter of the members of the Association as to whether they want this.

The President: The vote has been taken already on whether they want it or not, and it has 85 per cent in favor of it. The vote was never taken on the financial end of it, as the Board of Governors takes care of that, and the Board of Governors asked this meeting to express its sentiment. I do not think we will get as good an expression of sentiment by mail as we will get by this vote. I know what we got by mail, but I do not think we got as good an expression as we will get from an attendance such as this.

Mr. Dinkins: My own thought was that if the organization concurred with the Board as to the advisability of doing this, I believe we ought to do it.

The President: I think the Board will be governed to a large extent by the size of the vote on this question. Are you ready for the question? The question is that it is the sense of this meeting that educational work, as outlined by the Committee on Education, should be carried on under the auspices of this Association, and this meeting suggests to the Board of Governors that it would be wise for them to make suitable appropriation to start the work. Have I fairly stated your motion? Are you ready for the question? All in favor will signify by saying aye. (*Some for and some against the motion.*) I would like to see how many noes, if you do not mind and are not bashful

about it. (*Here six delegates dissented from the motion.*) The motion is carried.

That finishes our work on educational lines, and I would ask Mr. Compton to present the report of the Committee on Agricultural Credits.

Mr. Compton (William R. Compton Co., St. Louis): Mr. Chairman and Gentlemen of the Convention: The Committee on Agricultural Credits has a very brief report to present.

REPORT OF COMMITTEE ON AGRICULTURAL CREDITS

The work of your Committee has been confined largely to watching legislation at Washington and endeavoring to have removed from the final Bill some of the objectionable features.

Without attempting to analyze or criticize the Bill which has now become a law, we certainly wish the creature of our Legislature success and trust that it may be instrumental in aiding agriculture in our country, which is the backbone of national prosperity.

The newly created Federal Land Board deserves mention. The personnel is as follows:

Secretary of the Treasury McAdoo, ex-officio Chairman.

George W. Norris, of Philadelphia, formerly City Dock Commissioner, the Director of the Federal Reserve Bank of Philadelphia.

Herbert Quick, Editor of the Farm and Fireside Magazine, Springfield, Ohio.

William S. A. Smith, Banker, of Sioux City, Iowa, largely interested in farming.

Judge Charles E. Lobdell, President of the First National Bank of Great Bend, Kansas; experienced also in farm mortgage securities.

The newly appointed members of the Board have recently journeyed over the country, holding meetings in various localities, with the idea of familiarizing themselves with local conditions and determining upon the territory and location of the proposed twelve Federal Farm Loan Banks.

The law at best is complex and needs careful study to interpret properly. Briefly, it provides for the creation of:

- (1) Twelve Federal Farm Loan Banks, located so as to serve the entire country and Alaska. Capitalization of each bank to be not less than \$750,000. Any unsubscribed stock after a period of thirty days is to be purchased by the Government.
- (2) National Farm Loan Association, to be chartered by the Federal Farm Loan Board on the recommendation of the Federal Farm Loan Banks, organized by ten or more farmers, land owners, and prospective borrowers.
- (3) Joint Stock Land Banks, chartered by the Federal Farm Loan Board, capitalized at not less than \$250,000.

Certain provisions of the Act are susceptible of divergent opinions as to the practicability of their nature. For instance, Federal Farm Loan Banks are made Government Depositories; farm loan securities issued under the system are exempt from all forms of taxation and are legal investments for trust funds and security for public deposits. All borrowers are required to pay, in addition to interest, a sum of money which, amortized over a term of years, will pay the principal during the life of the loan.

It is not probable that the system will be in workable shape for some time to come. The effect on the marketing of farm mortgage securities, or on the investment field generally, is difficult to forecast, but we are not of the opinion that the marketing of these securities will have any appreciable effect on the business of the members of this Association.

The duties of this Committee seem to be at an end and we recommend that no reappointment be made.

Respectfully submitted,

WILLIAM R. COMPTON, *Chairman.*

The President: The report is received. The Committee seems to have completed its work, unless there are some questions that somebody wants to ask.

Mr. Hecht (Hibernia Bank & Trust Co., New Orleans): Can you give us any information as to any investigation that will be made, as to allowing the proposals to sell these bonds to bankers so that this can be done directly by each Federal Land Bank?

Mr. Compton: I confess I have not looked into the Act on that point. I cannot see how the distribution is to be made unless there is some provision for advertising, or the expenses attendant on the selling campaign. Perhaps the thought is, being tax-exempt, and being guaranteed by various farm loan banks, there would be a freer market. I presume that will all be worked out in due time.

The President: Gentlemen, our next topic on the program is a matter of great interest, which will be presented by a committee that has given the closest possible attention to the subject for the past year. I have attended several meetings of that committee, and I know how hard they have been working. I will ask Mr. John E. Oldham to present the Report of the Committee on Public Service Securities.

REPORT OF PUBLIC SERVICE SECURITIES COMMITTEE

The work of the Committee on Public Service Corporations, during the year, has been largely taken up with the consideration of provisions for a proposed Savings Bank law for investment in Public Utility Bonds, and the suggestions which it has to offer form the greater part of this report. Before taking up this subject, however, the Committee wishes to call attention to the excellent work which is being done by the Lawyers' Co-operative Publishing Company, of Rochester, N. Y., in the compilation and presentation of various public utility decisions by commissions and courts in all parts of the country.

Before this work was undertaken there was the greatest difficulty in ascertaining the decisions of the Commissions having jurisdiction of public service corporations in the several States, through the entire lack of any publication attempting to cover any part of the field. Some few of the States published more or less regularly the decisions of their commissions. Some of the States published at the end of each year a more or less complete summary of the work of the commission without attempting to print the decisions. A mass of undigested papers, some printed, some typewritten, covering the decisions of over forty states and embodying all sorts of irrelevant matter, had to be examined in order to determine either the decision of any commission on some particular subject or the trend of commission regulation in the country. A lawyer, or banker, or engineer, and even the Commissioner, desiring to keep informed on the rulings of regulatory bodies charged with the operating, financing, accounting and income, and disbursements of property worth some billions of dollars, had to spend many days and nights in laborious search and exhausting manual as well as mental exercise.

The publication of the series of reports of all commission decisions in the United States, known as Public Utilities Reports Annotated, with its careful editing, indexing and digesting, in our opinion has been one of the most important single happenings in the public utility field in the last two years affecting in the most vital ways the consumer, the investor, the operator, the manager and the banker. Through these reports the useless matter is separated from the decisions of interest and importance; all decisions of value are printed and distributed monthly in temporary form and later in bound volumes at most reasonable cost; the decisions are carefully analyzed, head-noted, indexed and digested, and the whole mass of the results of commission activities throughout the country is available in every office in the United States almost as soon as promulgated.

Public Utilities Reports Annotated is published by a very reliable publishing house and the success of the public-spirited and important effort is assured through the co-operation of all of the state commissions and most of the important utility companies, as well as many of the investment banking houses; several competing but inadequate efforts at competition have, fortunately, succumbed or been merged with the Public Utilities Reports.

We cannot urge too strongly that the members of this Association give their support through liberal subscriptions to the publication of this praiseworthy work.

Knowledge thus afforded of the decisions of all the bodies charged with regulation of public utilities by the commissions, lawyers, managers and bankers tends more rapidly to determine standards and fix values of public utility securities than any other single factor, and the existence of facilities for easily and quickly ascertaining the rules affecting the value of such securities on subjects like capital, issues, rates, depreciation, competition, monopoly and valuations should constrain us to support and encourage the publication by the subscriptions which it both needs and deserves.

The Committee has had called to its attention during the year the advisability of framing and approving a standard form of mortgage for utilities as being in line with the constructive work which the Committee can properly undertake. It was suggested that such a form of mortgage would not only be useful in itself to operators and bankers, but that its preparation would involve the discussion of many points which are of interest and value to the Association. The present lack of understanding in regard to mortgages has been attributed in some measure to their complication and to the confusion caused by the use of various forms by different attorneys, and it was suggested that if standard forms could be worked out on the analogy of standard forms of accounting, a much better understanding of the provisions of mortgages could be obtained. The Committee suggests that this is work which may properly be undertaken in the interests of the Association and hopes that during another year there may be opportunity for investigation of this subject and, if found practical, that some constructive work may be done along these lines.

Preliminary to taking up the matter of provisions for a proposed savings bank law covering public utility bonds, it seems desirable at the outset to have it clearly understood that the committee is not making definite recommendations and that such proposals as are made are suggestions rather than recommendations, all of which are subjects for further thought and study.

The Committee has pointed out certain principles which seem to properly underlie a law of this kind and has endeavored to give some of the reasons which make it desirable to give them your careful consideration.

The Committee wishes to present for discussion at this meeting the question of whether the principles as outlined are acceptable to the Association as a body, and if not, in what respect they should be modified and to receive in such a discussion, or by later conference with members having various points of view,— suggestions as to the actual provisions and details for the carrying out of the intent of such a law. With the acceptance or modification of the principles, and with the suggestions which embody the experience and knowledge of the members of the Association, the Committee believes that it will be possible to prepare a law which will represent sound standards of investment experience and give the protection to security holders which such a law contemplates.

In the early deliberations of the Committee, it became apparent that no single law could be drawn which would meet the requirements or be adapted to conditions in all states, and in order that the work of the Committee might be of practical value and accomplish definite results, not only must consideration be given to questions involving sound investment principles, but the requirements of varying situations must also be taken into account.

The requirements and purposes of savings banks wherever located appear to be much the same; the aim being to invest small savings safely and pay depositors dividends at the rate of 4 per cent annually. Generally speaking, the average expense, including taxes, of running savings banks amounts to a sum equivalent to about $\frac{3}{4}$ of 1 per cent of the deposits and an additional $\frac{1}{8}$ to $\frac{1}{4}$ of 1 per cent is desired for the purpose of a reserve. To pay dividends of 4 per cent, therefore, requires an average return on investments not far from 5 per cent. The opportunities for investment in different states, however, vary to such an extent that the methods of obtaining a 5 per cent return also show considerable variation. In some states 50 to 60 per cent of savings bank assets are found to be invested in real estate mortgages and personal loans, and as these investments usually yield fairly generous returns, such long term securities as are purchased can be of a kind to yield a lower income return than would be the case if the yield from the bulk of the investments were not so large. Under such circumstances the long term securities held are valued rather for their marketability than for their income-producing qualities, while the lower rates from these investments, when combined with the returns from real estate mortgages and personal loans, still yield approximately 5 per cent.

In states of slow industrial growth, however, where few new enterprises are being developed, opportunities to invest in local real estate mortgages and personal loans are often very limited, and it therefore becomes necessary to seek among other forms of investment something which will produce income enough to bring up the general level and permit a 4 per cent dividend rate for the depositor. Situations of this kind apparently provide the most favorable field for the introduction of well-secured public utility bonds to savings bank investment, inasmuch as such bonds are adapted to yield the desired income as well as to furnish the necessary requirements of safety and form assets of reasonable marketability. In the suggestions which follow, the Committee has undertaken to provide more especially for such situations as described, where opportunities for investment in real estate mortgages and personal loans are limited, and where it is accordingly desirable and necessary to look for other kinds of investment which will assist in obtaining the rate of income required for the purposes referred to.

At some future time your Committee believes consideration should be given to framing a law which would meet the requirements of other situations.

Before undertaking to deal with the specific provisions of an investment law, the Committee wishes to call attention to certain general principles of credit which it believes are fundamental to sound investment and which must necessarily exist as the basis of any general law of this character.

In the first place, it will be generally agreed that the face value of the securities proposed to be made eligible should not exceed the investment value of the property and that net earnings should exceed the amount of interest charges. In other words, there should be both a margin in property value above the face value of the bonds, and a margin in earnings above the amount required for the payment of interest. How much the margin should be offers opportunity for difference of opinion, but in any event it should be sufficiently large to protect the bonds against any probable shrinkage in either value or earnings.

While property values and gross and net earnings may appear at first sight

to be unrelated and while, of necessity, there can be no definite and fixed relation which will apply alike in all cases, yet, as both gross and net earnings are so largely determined by rates for service permitted by regulating commissions and as the investment value of a property is so important a factor in determining rates to be allowed, the Committee feels that there is some kind of relationship and some conclusion as to this relationship must be reached and recognized before undertaking to work out the provisions of a law of this kind. In using the term "investment value of property" it will be understood that the Committee has in mind the probable value which will serve as a basis in making rates for service, which, under average conditions, would doubtless be less than the fair market value of the property.

Without attempting to pass judgment as to whether the amount is fair or the methods of arriving at the result are sound and logical, as a matter of fact there is abundant evidence that for the purpose of rate making, either for railroads or public utilities, a value is seldom recognized which exceeds an amount equivalent to five times gross earnings. From an examination of a large amount of railroad statistics and various decisions where rates are subject to review by regulating commissions, it appears that there is little reason to expect a value on which to base rates for service substantially in excess of this amount; that is to say, an investment of \$5 based on \$1 gross earnings. From various appraisals also, which have been made from time to time during the past few years of public utility properties for the purpose of rate making, it is seldom that a value is accepted which exceeds the above amount, and more often the relation is \$4.50 to \$1 or \$4 to \$1. It is believed that a large number of the cases where property investment exceeds five times, gross earnings will fall under one of two heads; either rates are low compared with companies operating in similar circumstances and the company does not receive the gross earnings to which it is entitled for the amount of investment, or the investment, although made in good faith, fails to realize the results which were anticipated in the way of obtaining business. In the former case, readjustment of rates to a higher level by commissions or otherwise, tends to bring the proportion of earnings and investment to that which has been stated. In the second case, however, if sufficient business does not exist to justify the investment, rates on the business which does exist cannot fairly be raised to a point to yield a return on the entire property even if it were practicable to obtain the business at such rates. As the company will probably be obliged to operate under a scale of rates similar to those of companies whose investment represents only \$4 to \$5 to every \$1 of gross earnings, it will be most difficult to obtain a return on the excess of investment, and as the excess investment cannot earn a return and probably will not be recognized for purposes of rate making, the value of the property to all intents and purposes is reduced to the average level.

In cases where commissions have been called upon to determine the rate of return on the investment they have usually reached conclusions that 6 to 8 per cent was a reasonable return on the amount of investment that it was fair to recognize. If these conclusions are applied to the relationship between gross earnings and investment, as noted above, the amounts necessary to give a 6 to 8 per cent return would require a sum equivalent to between 24 per cent and 40 per

cent of the gross earnings. That is, a 6 per cent return on a property value of 4 times the gross earnings would give 24 per cent of the gross earnings. Eight per cent on 5 times the amount of gross earnings would give 40 per cent of the gross earnings. It appears from this that from 32 to 40 per cent of gross receipts would be the maximum amount to be expected as an allowance for a return on invested capital where companies are under the supervision of a commission.

It also appears from the above that the limit to which money may be loaned upon property must be safely within the amount of 4 to 5 times the gross earnings of the property and that the fixed charges must be safely within an amount of from 32 to 40 per cent of the gross earnings. The relationship of the amount of the loan to the property value will be apparent from the amount of bonds, and the relationship to earnings will be apparent from the amount of fixed charges. As the charges bear a fixed relation to the amount of bonds they may be taken as the starting point in the establishment of standards for such purposes as the proposed law. They may be measured in their relation to net earnings as representing a basis of earning power, or in their relations to gross earnings to show indirectly the relationship of bonds to the value of property.

If a sufficient margin of net earnings over interest charges were the only requirement, it might occur that this margin was obtained as the result of abnormally high rates for service, or abnormally low wages or power costs, or insufficient maintenance of the property. In these cases the net earnings might be obtained from gross earnings on a smaller investment than would warrant the amount of bonds indicated by fixed charges; if investigation were made by a commission net earnings might be allowed only on such investment, which would not give enough of a margin over fixed charges, or the advantage from low operating costs might disappear as conditions changed, and the margin be dangerously reduced from this cause.

Large net earnings resulting from a low operating ratio indicate either more than an average investment on which the usual return is allowed, or an abnormal rate of return on what is recognized as an average investment. An abnormal return on invested capital would not be likely to continue indefinitely but would result in agitation for lower rates for service which, if brought about, would be followed by a decrease of both gross and net earnings, the final result being to establish a relation of earnings to property investment such as is found under average conditions.

On the other hand, if the relationship of fixed charges to gross earnings, as showing the relation of bonds to property value, be taken alone, a generous margin of value over bonds might exist, but the property might be burdened with heavy expenses which would leave net earnings entirely insufficient to provide a safe margin over charges.

After consideration and experimenting, the Committee has decided that net returns equal to $1\frac{3}{4}$ times charges offer a fair margin of safety, and that gross earnings equal to 4 times fixed charges offer sufficient evidence of a property value in fair proportion to the amount of bonds.

It is necessary, however, to combine these requirements as a check upon each other. For instance, in the case of a property with \$100,000 gross earnings the value might be \$500,000. If it were bonded for this entire amount, fixed charges

would be \$25,000 and this would comply with the requirements that gross earnings should be 4 times the fixed charges.

To show $1\frac{1}{4}$ times these charges, however, would require \$43,750 net earnings applicable to a return on capital and allowance for depreciation. This is not an uncommon proportion of net earnings to gross; yet, if the company were involved in a rate case before a commission, it would probably not be allowed in excess of 6 per cent to an 8 per cent return on \$500,000 investment, or only from \$30,000 to \$40,000 which would not provide a sufficient margin over the \$25,000 fixed charges to comply with the requirements.

On the other hand, we may suppose that a company with \$100,000 gross earnings operated for 44 per cent, leaving \$56,000 net earnings. This, at a ratio of $1\frac{1}{4}$ to 1 would justify \$32,000 fixed charges, equal to 5 per cent on \$640,000 bonds, an amount probably in excess of any property value which the commission would find. Gross earnings, however, would not be four times the charges, consequently such bonds could not qualify.

These examples show the practical working of the close relation between property value, bonded debt, and gross and net earnings, and the usefulness of this relation as a basis for such a law as the one proposed. While situations may exist, because of special circumstances, where a return may be allowed on more than the average investment value of the property, or the rate of return allowed may be above the average, at the same time the Committee believes that in drafting a law of this kind it should have in mind average and not special conditions. The restrictions suggested would guard against investments based on excessive property values unaccompanied by necessary earning power, both gross and net. The provisions for gross earnings would be a protection against larger net earnings than could probably be maintained; the margin between net earnings and fixed charges would provide against decrease in net earnings due either to falling off of business, reduction in rates, increase in cost of operation, or other unforeseen causes.

It may be said, however, that in order to obtain a proper working of these relationships and the safeguards arising from them, the supervision of a commission plays a necessary part. Your Committee believes that this is true, and it is thought best to make it an important part of the law that only companies shall qualify which are situated in states having commissions with control over rates for service and vested with other powers to serve as a protection to invested capital.

The above provisions suggest the conditions which a corporation should meet in order to have any of its securities become eligible. If a basis of agreement can be found for the general requirement as to credit on some such basis as suggested, consideration may next be given to the general principles governing the choice of companies whose securities may qualify for investment and the requirements of the securities themselves.

In regard to the kinds of utilities which afford a suitable field for savings bank investment, your Committee believes it is advisable, for the present at least, to include only companies furnishing artificial gas, electric light and power, local transportation and telephone and telegraph service. It is suggested that the recent development of the jitney and other independent systems for local transportation makes it desirable to specify in the law that local transportation companies must operate cars running on tracks.

It is not sufficient for the purpose of savings bank investment that the corporations whose securities are made eligible should be engaged in the kinds of business designated — they must be engaged in them in a really public way. The earning power needs to have the stability afforded by an income derived from the general distribution of service. A power company selling its entire product to a few large manufacturing concerns would not come within the requirements of the law as proposed. Many such concerns undoubtedly have securities which afford a fair and adequate basis of safety for investment, but in the opinion of the Committee they lack the essential element of being public utilities as here defined, that of actually serving the public generally, and cannot properly be dealt with in a consideration directed to those corporations which are in the nature of public service corporations in fact as well as in law. If it were desirable to make such securities eligible the matter is one which should receive separate and special consideration.

The Committee, after some study of various utility properties and the market for their securities, would suggest that companies must have at least \$500,000 gross earnings in order that their securities may qualify for investment. This, also, has been a matter of some experimenting in order to place the requirements at the proper point, and it has been found that companies of this size usually operate in substantial centers of population and have a substantial amount of property investment. Further, companies with earnings of the above amount usually require bond issues of a size which insures a considerable distribution and consequently a better market than is possible with smaller issues. As in other cases the decision must be arbitrary, but it is believed that \$500,000 gross earnings fairly marks the point where the advantages of a well-established market for the securities of a corporation may be expected to exist.

The Committee would suggest, in order that there may be assurance that earnings are derived from a general distribution of service as the law intends, that if 10 per cent or more of the gross earnings is derived from any one customer the revenue from that customer shall be excluded in determining the size of the corporation for this purpose of qualification. It is not the intent, however, to exclude these earnings in the other provisions of the law.

In regard to telephone companies the Committee believes that gross earnings of at least \$1,500,000 should be required in order to give the assurance that a company occupies either a large and permanent center of population or else covers a large area so as to include a proper field for long distance communication and give a full telephone service, long distance as well as local.

The Committee suggests that investment should be limited to companies located within the United States and believes that investment can, to advantage, be further limited to those states only which have public utility commissions with powers of protection of utilities and their investments. It is believed that sufficient protection is afforded where a commission, through control of rates, can assure to a company a fair return on its property investment, honestly and prudently made, and where the laws provide that any new utility must obtain a certificate of public convenience and necessity from the commission before starting in business. Consequently, the Committee suggests the further restriction of investment to utilities located in states which give such protection.

The matter of franchises has led to much consideration and attempts have been made to find suitable and practicable franchise restrictions. The Committee, however, now believes that it would be unwise to try to draft definite provisions on this point. To require that all franchises should extend beyond the life of the bond would disqualify some of the best securities, and possibly place in a doubtful position corporations operating in states providing for the so-called indeterminate franchise. To require that the principal franchise should extend beyond the life of the bonds, raises the very difficult question in answer to what the principal franchise of a particular corporation is. The Committee believes that in limiting investment to the securities of corporations operating in those states which have public service commissions with jurisdiction over rates and requiring a certificate of public convenience and necessity, it has done as much as is practicable in the form of a general rule in safeguarding investment against franchise difficulties. The Committee has in mind further that the franchise difficulties of the past have been due largely to the attempt of municipalities to force burdensome restrictions upon corporations at the times when franchises expired, especially in the way of lower rates for service, and the placing of rates under the jurisdiction of utility commissions and eliminating municipal control the greatest element of danger in such situations has been removed.

It has appeared best to adopt a principle which should limit the proposed investments to the securities of operating companies except as further noted, and only to those securities which possessed a direct lien on property operated in the service of the public. This would insure that the earnings on which the restrictions were based should come directly from the operation of a utility, rather than in the form of interest or dividends and that in case of trouble the security holders could at once take possession of the operating property. This leads to the proposed definition of gross earnings as income received from properties owned and operated, or leased and operated. It is possible that in some cases the earnings of properties controlled (by stock ownership) and operated might be so merged in a company's statement of gross earnings as to make their inclusion necessary, and in such a case it is possible that some provision should be made for situations of this kind. However, this is open to the objection that securities issued by a company which merely controls its subsidiaries, usually can give a lien only upon their securities and not upon the properties, and in such cases does not fulfill the principle as stated, which calls for a lien upon actual property used in operation. It is possible, however, that it may be advisable to make provision for companies owning the entire amount of securities of operating companies and pledging the same as security for bond issues in such a way that in event of foreclosure the property could be reached as effectively as if secured by direct mortgage.

A possible deduction from gross earnings in determining the size of a corporation has been suggested above in cases where 10 per cent or over of the earnings is derived from one consumer. It is also important to exclude from gross earnings any "intercompany" items arising from such sources as sales of power by a leased property to an operating property or similar transactions.

With regard to net earnings, these have been tentatively defined as "the amount remaining after deducting from gross earnings the amount of operating

expenses (including therein expenses of reasonable and proper repairs, current renewals and maintenance, license charges, taxes and insurance) for all properties, the income from which is included in gross earnings."

It may be open to discussion what should be the exact wording of this definition, particularly with regard to maintenance and possible provision against depreciation.

It is believed that there may properly be added to this definition a provision for the inclusion of income from outside sources such as securities owned. An objection to this would be that bonds could be issued on the basis of net earnings which might come from other than public utility operation, but the required ratio between gross earnings from operation and interest charges would act as a check to prevent a company from taking advantage of this provision except to a small extent.

Fixed charges in a general way include all interest paid upon the direct and assumed obligations of a company and all rentals paid, whether in the form of cash payments, or of dividends or interest on securities of leased properties. These charges, however, include such payments only when made outside the company and do not include interest or dividends on securities held by the company itself.

The Committee suggests that in selecting the securities of companies which qualify for investment, the principle should be followed of allowing only bonds which are secured by a direct lien on operating property from which the company's gross earnings are derived, and are the direct or assumed obligations of the company which qualifies, or are bonds of leased and operated properties guaranteed as to both principal and interest by endorsement by such a company.

This limits investment to mortgage bonds, except that the Committee believes that an exception may safely be made in the case of a bond issue secured by entire issues of first mortgage bonds of operating properties whose gross earnings are included in a company's statement of gross earnings, as such an issue would give in effect a first lien on operating property.

With the above exception the eligible classes of bonds recommended by the Committee would be in the first place either first mortgage bonds, refunding mortgage bonds, or bonds underlying a refunding mortgage.

First mortgage bonds would have the requirement of having been secured on all the property of the issuing company at the time of issue (though not necessarily secured by a first mortgage) and of being secured by a first mortgage on this property at the time of investment (though not necessarily on the entire property of the company at that time).

Refunding mortgage bonds would be secured by a mortgage on all the property of the company at the time of issue; would provide for the payment at maturity and retirement of all underlying bonds and would mature at a later date than any of such underlying bonds. In the case of refunding bonds it sometimes occurs that an issue is put out which is secured on very little, if any, more property than the underlying issues, and is in effect a second or a general mortgage bond. It is thought best to require that the refunding issue should represent a substantial investment in excess of the underlying bonds, and it is accordingly suggested that the amount of bonds issued under the refunding mortgage shall be at least equal to the amount of underlying bonds.

The inclusion of refunding mortgage bonds makes it logical to include also the bonds underlying such refunding mortgage. Some of these may already qualify as first mortgage bonds and as those which do not are acknowledged by the company creating the refunding mortgage as prior obligations and are to be replaced by bonds qualifying as legal, it seems reasonable to include them as eligible.

It has not been thought necessary to place a minimum amount on the size of a bond issue to qualify under the law.

It is also proposed to include mortgage bonds of properties leased and operated, which are guaranteed as to both principal and interest by endorsement by a company which qualifies on its general credit. It is considered that this credit, together with the security afforded by a mortgage on a part of the operating property, is sufficient to make the bonds desirable.

In addition to the bonds already considered, the Committee wishes to call attention to the further investment possibility afforded by bond issues of companies whose junior obligations prevent them from qualifying under the requirements of general credit. It is believed that the obligations which precede the junior issues of such companies, if their interest charges, together with rentals paid by the company, bear no more than a fair relation to the net earnings, and if these senior obligations are secured by mortgage, offer substantial security and should be eligible for prudent investment. Some study has been made of this class of securities, with the result that the Committee suggests the inclusion of first mortgage bonds of such companies which conform in their fixed charges (interest on first mortgage bonds plus rentals of the company) to ratios of 5 to 1 and 2 to 1 to the gross and net earnings respectively. The Committee also recommends the inclusion of refunding bonds on similar terms of companies not complying with the credit requirements.

It is suggested that in the case of large authorized issues, such as have been created by recent mortgages, future issues of bonds, if not safeguarded, may materially alter the standing of bonds which were good at the time of their original purchase by savings banks. The Committee believes that some provision should be made against this contingency. From such investigation as has been made of mortgages covering issues which would otherwise qualify, there seems to be so much diversity in the provisions for escrow bonds that it appears to be a difficult matter to handle satisfactorily, and it is therefore thought best to leave the matter open for consideration and discussion.

The Committee also suggests, that where, for the purposes of the law, a certain ratio of earnings to charges is required, this ratio must have existed in the three fiscal years of the company next preceding investment. The requirement as to amount of gross earnings, however, need have existed only in the fiscal year next preceding investment.

It is believed that a provision should be included similar to that in some existing savings bank investment laws, permitting a company's securities to remain legal, although the company fails in one fiscal year to maintain its standard of general credit. This should follow the existing laws, however, in not allowing further investment in such a company's securities until the company has again attained the required standard and in not allowing the term of probation to extend more than one year.

Some consideration has been given to the matter of official recognition and eligibility for investment. Under such a law as proposed it is believed that the requirements as outlined are sufficiently simple to allow the bank commissioner of the state, provided he is furnished with the necessary data, to pass upon the compliance of various issues with the terms of the law. It is proposed that the commissioner should publish a list of legal bonds and that no issue shall be eligible unless it has had the commissioner's approval. The following outline embodies the recommendation of the Committee in this respect:

At the request of any bank, the bank commissioner shall give his opinion as to whether a bond satisfies the requirements of this Act. He may accept as evidence of the facts on which to form his opinion about the eligibility of the bonds the regular annual financial statement, including the income account and balance sheet of the corporation, verified by the affidavit of the president or vice-president or treasurer. If, however, in the opinion of the bank commissioner the regular annual statement of the corporation so furnished him does not give a sufficient statement of the facts, or if he desires further evidence, he may require such further evidence as he may desire.

The bank commissioner should publish each year a list of the bonds approved. Unless notified by the commission to the contrary, a savings bank may consider any bond appearing on the list as an investment which it is authorized to make until a new list is published in which the bond does not appear.

Unless the corporation, whose bonds have been approved by the bank commissioner as a legal investment, shall within three months after the close of its fiscal year furnish to the bank commissioner evidence of the regular annual financial statement including the income account and balance sheet of the corporation verified by the affidavit of the president or vice-president or treasurer, the bank commissioner may notify any savings bank, or all savings banks, that they are not authorized to make further investments in such bonds until contrary notice is given by their inclusion in the printed list or otherwise.

Your Committee believes that the suggestions made above cover the essential points of such a law as proposed. In submitting these suggestions in the form of a report, it is hoped that discussion may be brought out among the members on the various points about which there may be room for difference of opinion. Besides the fundamental requirements of credit and the application of this standard to varying situations, the following are some of the matters on which the Committee would welcome discussion:

1. Kinds of companies to be included.
2. Size of such companies.
3. Limitation to states having utility laws.
4. Attempt to impose franchise requirements.
5. Exclusion of holding companies.
6. Attempt to impose requirements as to maintenance and depreciation.
7. Inclusion of senior securities of companies of inferior credit.
8. Requirements as to safeguards for escrow bonds.
9. Length of time for qualification.
10. Amount of work imposed on bank commissioners.

Realizing that the test of a law is in its application to actual conditions, the Committee has attempted as far as possible to test the proposed provisions by applying them to companies and bond issues of the class dealt with in the law. This work, however, has been subject to the limitations of the Committee as to time and resources, to the great number and complexity of the public utility situations of the country, and to the lack of uniformity in the information obtainable. While enough situations and securities have been analyzed to encourage the Committee in believing that such a law as proposed will give a satisfactory field of investment, adequately protected, it nevertheless wishes to make further actual tests of the law in its application to the larger public utilities. The Committee accordingly hopes to have the benefit of assistance from the owners and operators of the larger utilities and groups of utilities, believing that their experience, their point of view and their opportunity for comparison of numerous properties will be of especial assistance.

In asking for this co-operation, and in giving as much time as has been given to this particular subject, the Committee wishes to state again its belief in the value of this work, both in the way of crystallizing the best opinion of the Association as to the financial standards to be observed by utilities, and in the way of assisting savings bank officials and legislators to obtain a clearer view of the field of utility investment. Interest has been shown in this work, both within and without the Association, and the Committee has been called into consultation during the year to give the benefit of its study of this subject to the savings bank interests of one state in which a change in investment laws is under consideration. It is believed that such application as this of the Association's work is precisely in accord with the aims of the Association, and that work and study which render assistance in the general establishment of better investment standards should be encouraged and continued.

The Committee wishes to express its appreciation of the work of Mr. Hastings Lyon, who has acted as its counsel during the year, and to thank him for the valuable services which he has rendered.

Respectfully submitted,

JOHN E. OLDHAM, *Chairman.*

(Applause.)

The President: Now, the question of general credit restriction.

Mr. Oldham (Merrill, Oldham & Co., Boston): The question of general credit restrictions would apply to these provisions.

The President: Is there anybody who wants to be heard on this topic? We have to move fast. We will pass to the second one — (2) "Kinds of companies to be included." "The character of the business" "holding companies"; whether street railways should be included, and whether interurban street railways should be included as well as urban."

Mr. Bodell (Bodell & Co., Providence): I would like to



STACY C. RICHMOND
Winslow, Lanier & Co., New York



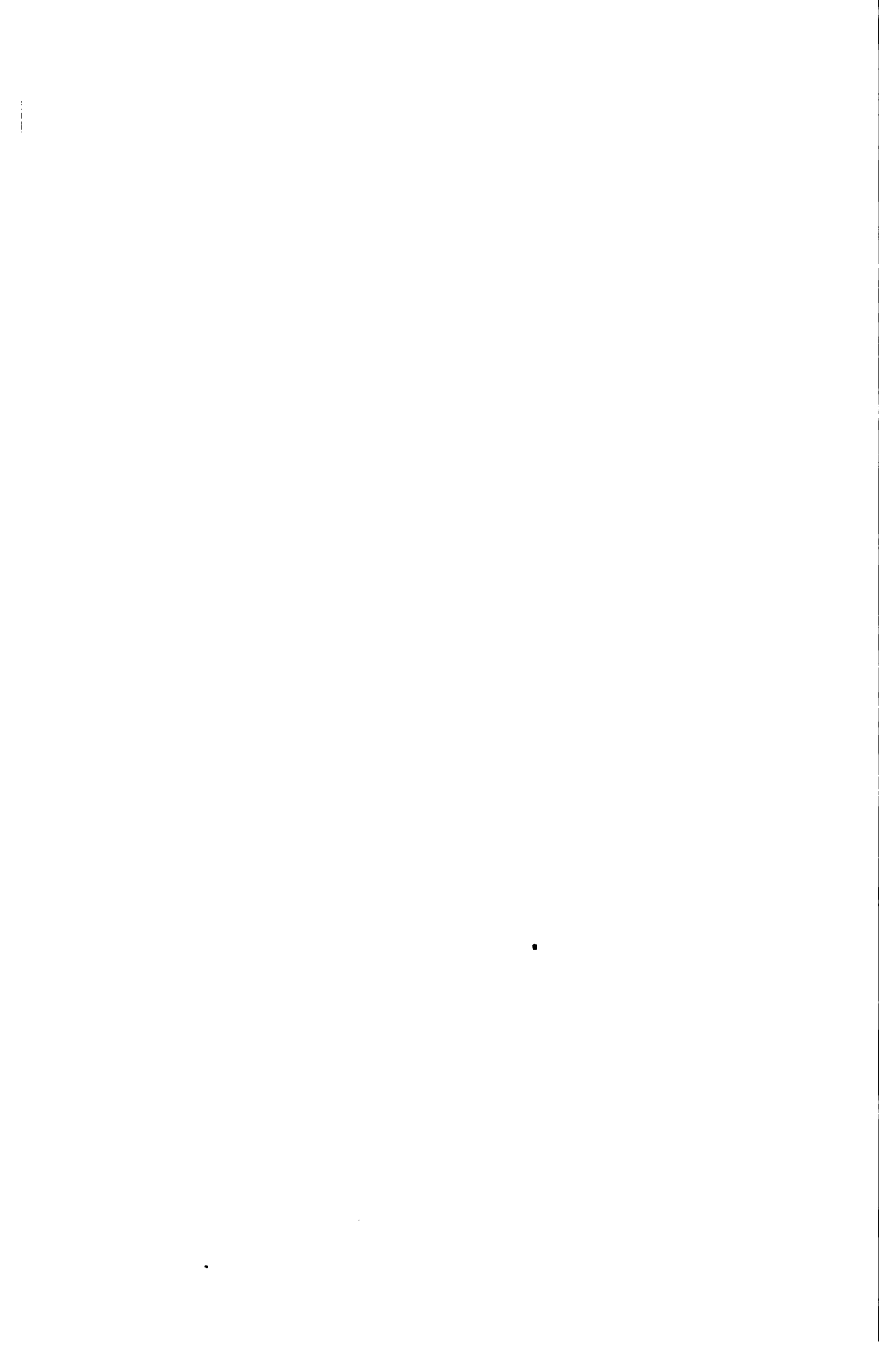
CHARLES H. GILMAN
Charles H. Gilman & Co., Portland, Me.



WILLIAM G. LERCHEN
Watling, Lerchen & Co., Detroit



REAMY EUGENE FIELD
Field, Richards & Co., Cincinnati



ask if any gas companies distributing gas locally, but purchasing their gas through natural gas companies, are included.

Mr. Oldham: We refer more especially to the distribution; where it can be defined, it would not make any material difference where they get it, whether they bought it or manufactured it. The same thing with regard to gas or electricity. It might be that an electric company, with the present modern ways of doing business, could more advantageously buy its current than manufacture it, and we would not think for a moment of eliminating that company because it did not own its own power plant any more than a gas company which bought its gas.

The President: Now, on Topic No. 4—“Location of such companies with a possibility of limiting them to states having satisfactory utility laws.” There are some pretty broad questions here, gentlemen; there must be some good thoughts on them somewhere here.

Mr. Bodell: I would like to ask one question on that, and that is: Has the committee any idea how many corporations would come under the provisions of the proposed law in this country? It occurs to me that in framing this law, which I think we will all admit is a good one, you are endeavoring to furnish savings banks with a 5 per cent investment, and that you will narrow the field of the particular securities if you are going to legalize to such an extent that you quote them at a premium, so that you won't get 5 per cent, and I think there is great danger of narrowing the field.

Mr. Oldham: As regards that question, I will say that the committee would consider that these represent the minimum restrictions which you could put on, and be safe, whether it narrowed the field or did not narrow the field, we would not feel we could go in the general law any further than we have gone here.

As regards the companies that will qualify, it has been absolutely impossible to obtain at the present time from public sources information which will satisfactorily test the provisions. The thought of the committee has been that if we could come to some conclusions as to what were desirable provisions and restrictions, that then we would get into touch with the public utility managers and hear what they had to propose. We would be glad to have them put this test on the bonds of their particular corporations and see how many of them would qualify; what provisions bar

them out, and then we will give further consideration to see whether we are barring out a considerable number that ought to come in. If we find in actual practice that we are barring out securities that ought to come in, we must work around and see if we cannot word the law so as to include everything that can legitimately come in, and still conform to sound financial practice.

I might say that that was practically what was done in the case, I think, of the railroad law, for both Massachusetts and New York. When that law was first proposed it was sent to the large railroad corporations; each one, of course, being jealous of its own interests looks at it from its own standpoint, and there were a great many suggestions given as to why it barred out this issue, and that issue, and then it was possible to consider whether they should be barred out, or whether they should come in. The same kind of work has to be done here. Consider that these suggestions are a starting point, and everything that has been suggested here is open for further consideration and discussion, and there is a great deal which will be brought out when you come to the test of applying the restrictions, but you cannot test any large number of situations on the basis of information which is to-day available. Reports are made in all kinds of forms — holding companies, and all kinds of companies are mixed up, and the information is very incomplete. It ought to be more complete. If public utility bonds are going to take their proper place in the market, there should be some uniformity in making reports so that the layman can take a report and know something about that corporation; he cannot do it to-day, and if anybody does not agree to that, he had better try to put the test of these provisions on our public service corporations, and he will find very few where he could put on all the tests, and I do not believe there is any one of these tests which it is not fair to make.

The President: Now—(5) “Franchise requirements.”

Mr. Prichett (Frazier & Company, Philadelphia): Mr. Oldham, in a state where a franchise expires before the maturity of the bonds, but in that state the policy has been to favor exclusive franchises, and not to favor competition, would you say it was a safe situation to consider that bond eligible on the ground that the franchise would probably be renewed, even though it did not expire before the maturity of the bond?

Mr. Oldham: You notice in the provisions, we made no provision whatever for the length of the franchise. We felt that where the public service commission had jurisdiction over rates and where no company could begin operating without a certificate of public convenience and necessity, that gave all the protection which we would suggest. You cannot legislate for length of franchise. You cannot tell — many of these companies are operating under 25 or 30 different franchises, and operating in all sorts of ways. You cannot determine what the principal franchises are, and we came pretty much to the conclusion, about the only way to handle it is to take the protection afforded by the public service commission, and where the jurisdiction over rates is removed from the municipality. Then, also, when you come to the question of a franchise without limit, you will find a difference of opinion among our best lawyers as to whether it is actually a perpetual franchise: when you come to press them down hard they do not like to give an opinion that it is perpetual; so in such a situation as that you might say a franchise immediately expires. It does not seem in going over the matter as though we could draft any restrictions which would be satisfactory to cover the franchise situation. Looking from the experience of our public service commissions, in dealing with these matters, and their attitude towards competition, we believe that in those states where they have that protection that it is all that we can provide for.

The President: Any further discussion on the subject?

Mr. Wright (H. P. Wright Investment Co., Kansas City): I judge from Mr. Oldham's remarks a moment ago that the idea of the sinking fund was merely to protect the equity and value between the bonded debt and the value of the property. Of course, in case of a company operating under a limited tenure, say a twenty-year franchise, would you recommend the requirement of a specific sinking fund to reduce that investment after the end of twenty years?

Mr. Oldham: I think, Mr. Wright, in answer to that, I would say that I would not want to pass on the sinking fund as a general proposition, and I would want to consider it in its application to the particular situation. It would depend a good deal on the amount of property in relation to the bonded debt; it would also depend a good deal on the possibility of competition. Also

if there was a situation where there was a provision in the law that the municipality could take the property at certain values,—each one of these situations, it seems to me, has to be considered on its own merits and I do not believe you can deal with it as a general question in an investment law.

The President: The next topic is “(6) Exclusion of Holding Companies.” We will pass that. Now, “(7) Requirements as to Maintenance and Depreciation.”

Mr. Dinkins (Interstate Trust & Banking Co., New Orleans): Mr. President, I do not recall that the report made any suggestion as to the percentages, either of gross or net earnings, which could be set aside for depreciation. I was wondering whether or not the Committee had considered the percentages which would apply to a corporation holding both gas, electric light and street railway facilities in a certain city, a relative amount.

Mr. Oldham: The relative amount based on gross earnings, or value of property, or what?

Mr. Dinkins: The relative amount based on the earnings from each of these subdivisions—gas, electric light, and street railways.

Mr. Oldham: No, we have not and our feeling in the matter was this, that we have said net earnings should bear a relation of $1\frac{3}{4}$ to fixed charges. We felt that the extra $\frac{3}{4}$ of 1 per cent would be a sufficient margin to cover that question. We, however, feel that in the operating expenses it would be very much better if you had, or could have, in starting fresh, depreciation carried into your operating expense, but if you did, you would have to change your relationship of fixed charges to net earnings; in other words, you might want to reduce it to one and one-half, but the public is educated to the other way, net earnings close to one and three-quarters, or twice fixed charges. Here is one company that puts depreciation into its operating expenses and makes its statement on a very conservative basis and only shows one and one-half to fixed charges. There is another one that is twice, but the one that is twice has a very limited amount of maintenance charge and no depreciation, and after all may not in fact offer as good security as the one that has apparently a poorer financial showing. Consequently, in getting at this matter, we felt we were willing to stand at one and three-quarters, and that would provide enough

to take care of decreased earnings and the proper charges for depreciation.

The President: Gentlemen, we have invited Mr. Freeman to talk to us, and I know he has a very interesting address. I did not want to limit him as to time, and yet we have a specified time for adjournment. I would ask if there are any other questions on this topic of a general nature, or do you want to bring it up later, if so we will try and set an additional time at a later session if you want to think this matter over and open up the subject again.

Mr. Dinkins: Mr. President, I want to open up the subject of depreciation again, and take it up further.

The President: We will try to allot some time.

Mr. Moore, (Barclay, Moore & Company, Philadelphia): It seems to me the reason there has been so little discussion of these various topics here, is due to the fact that the Committee has so thoroughly covered it, that there is little left to be said, and it seems to me that we ought not to pass this report by without going on record as indorsing the work that has been done by it.

I therefore, Mr. President, move that we approve the report of this Committee, and also that it be printed, and copies mailed to the members as soon as it is possible to do so.

The President: All in favor will signify by saying aye, and the contrary no. It is so ordered. (Applause.) Mr. Dinkins of New Orleans requests that we set aside some time to-morrow, if possible, for a further discussion on this question of the necessity of putting a maintenance or depreciation requirement in the law, and the Program Committee will try to allot some time, if possible, to-morrow, for the reopening of that subject. Also, if there are any other questions on this Public Service Report that you want to discuss, if you will kindly report to the Secretary we will try to arrange some additional time.

We are very fortunate in having with us this morning,— particularly after this question of Public Service Corporations, which has been so admirably introduced by the Chairman of our Committee,—a man who can speak with great authority on the subject, and I take great pleasure in introducing to you, Mr. W. W. Freeman, President of the Union Gas & Electric Company of Cincinnati, who will talk to us on "Evolution in Public Utilities." (Applause.)

EVOLUTION IN PUBLIC UTILITIES

W. W. FREEMAN

President, Union Gas and Electric Company, Cincinnati

The continuation of your discussion, which I have listened to with a great deal of interest, and with profit, would be of much greater value than anything which I can hope to say. It would also have relieved me of some embarrassment, because of the character of this audience.

I have had the experience at different times of wrestling with bankers individually, with more or less success, but to attempt to wrestle with them *en mass* is an entirely new experience. The apology, I suppose, for my being interjected into this meeting is because of having a number of friends in town who seem to have more consideration for me than they have for their competitors in business; their reason would perhaps be a suggestion that a few words from the standpoint of the operator of utility properties might throw some light upon your discussion of the side of the case, more related to finance.

I have had in mind, undertaking in a few words and in a very informal way, to say something bearing upon the present situation of public utilities, from the viewpoint of an investor as applied to the experience of public utility companies, during the past twenty-five years or more.

I am glad to be able to say that as the result of more than twenty-five years of personal experience, in operating utilities, I am a decided optimist to-day, but I believe that an appreciation of the advantages of the present can be gained most readily by a very brief review of the past. We sometimes in the enthusiasm of the present forget the past and forget some lessons that come to us thereby.

What I have in mind, in referring to the evolution of public utilities, is merely this: We have been passing through experiences for 25 or 30 years past that have been more or less interesting, exciting and trying. As the result of these experiences, I believe public utilities are on a basis to-day and still more promising for the immediate future than they have ever been before. There are perhaps three or four distinct eras in this evolution of utilities. The first may be but briefly mentioned. The era of Invention and

of the initial promoter or developer, and this era, especially as applied to electric utilities, is quite fresh in the minds of very many who are here to-day. I need merely say that the initial inventor and the pioneer, so far as my knowledge goes, was very poorly rewarded as a rule for his work; then following that came the era of Exploitation, of utilities generally, and this is the era with which so many of our friends in public find so much fault; where attempts were made without restriction of any kind whatever as to the issue of securities or as to the payment of earnings to capitalize the privilege of serving the public, and to utilize that privilege for the mere purpose of extorting from the public all that could possibly be secured and paying out to the promoters the spoils. That seems to have been the conception of the average individual who has very little money to invest with regard to this era of exploitation of public utilities.

We must confess, of course, that there was no restriction imposed by law upon the issue of securities, and that what happened was very largely the result of the capacity and the ingenuity of the promoter, and the operator, in each individual case.

Then came the era of Regulation on the part of the public, and the attempt to do away with all of the abuses of the past, protecting both the investor and the consumer, as to rates and to service, and while the theory of regulation is absolutely sound and is for the interest of the investor, no less than for the interest of the public, I am forced to the conclusion from my own experience that what was in the public's mind generally, in imposing regulation upon utilities, was not the protection of the investor, but was to reduce the charges for service, and it was because of the general belief in the public mind that rates were high and service was poor. The people were being bled by public service corporations generally, and that these things would stop when regulation was imposed, that there was such a unanimous sentiment for the regulation of public utilities.

We have had regulation for a good many years, longer in some states than in others, and operators will tell you that they had experiences in connection with regulation that have been interesting, and have been at times annoying and unfortunate.

It is not the most pleasant thing in the world to have the power of life and death over your properties placed in the hands

of men, however intelligent and sincere they may be, who are absolutely unequipped from the standpoint of experience to undertake the duties suddenly imposed upon them, and operators will tell you, if they are frank, of repeated experiences, where they had been told by those well-meaning people, that theories which they themselves perhaps entertained years ago, but found to be fallacies must be introduced in the operation of their properties.

However, we have struggled through, assuming the good intent of the public with regard to regulation, and the point in regard to regulation that I wish to particularly emphasize this morning, is that regulation in general, eliminating certain individual cases, has failed to produce the result that regulation was intended to produce, so far as the popular conception of the public was concerned. Regulation has served to-day more for the investor, in proportion to what was expected and intended, than it has served to-day for the consumer, for the public.

As a first step in reducing rates through regulation, the question of the valuation of properties was raised. Valuations became popular and numerous in various parts of the country. Then, the discussion of the rate of return to which a company was entitled, and attempts were made to devise certain standards as to certain rates applicable generally. The fact is, that the valuation of properties, the application of the theories of regulation to the average properties throughout the country, has not served to reduce rates or to produce the results that were generally expected and intended. Now, the reason must be this, that notwithstanding certain abuses that may have existed, notwithstanding the absence of restrictions, there were automatic restrictions to the financing and operating of these properties, which gave the public the protection of which they were not aware and which they sought to procure through regulation.

The rates for service of public utility companies have been more or less standard in all parts of the country, varying occasionally in localities, but these standards which were accepted, perhaps without a full appreciation of what they involved and the necessity for rendering good service, has served, without the knowledge of the public, to give them the full measure of protection to which they were entitled and giving them as much

protection as they have since secured by their more modern methods.

I might cite just by way of illustration one of our local properties here. We have in this city the Cincinnati Gas & Electric Company which has gone through the experience of companies in other cities, during the period of exploitation, to which I have referred. It has popularly been supposed to have had all the political influence which the utility company has in any community. It has been supposed to have had as much inflation in its capital as has been true of public utility companies elsewhere. When regulation was threatened, effective legislation, in this state, it was the popular impression that this company, because of its past history, and because of the supposed inflation in its capital, would suffer very stringent rate reductions under strict operation and strict regulation. Valuations of the company were undertaken. The theory of regulation was applied in its most drastic form, and that has been going on for a period of three or four years. The result is just beginning to develop, and after valuation has been applied to a property, which I think is typical of properties throughout the country that are supposed to be over-capitalized, that are supposed to have taken advantage of political influence — mind, I am not speaking from my own knowledge, but merely quoting general impressions in the community — the result is that after the application of the appraisal theory, and drastic regulation theory, rates are now about to be fixed, and instead of those rates showing the reductions that were expected, they show in the case of one branch of the service, a reduction of — an attempted reduction of — about \$200,000 annually, which, under the most recent procedure, it appears, will not be enforceable; but in addition to that, if the public press can be relied upon, a new ordinance is about to be passed for another branch of this service, where the public, after the most thorough investigation, concedes that an increase in rates is not only justifiable, but necessary, and an increase of more than double the proposed decrease in the other arm of the company's service. Securities, which under the pessimistic notion of the public a few years ago were selling in the sixties, are now selling very enthusiastically in the nineties.

I merely cite that as an illustration to prove the claim made,

that the public has had a misconception of the facts as applied to utilities; that the application of its own methods for getting its own kind of relief have turned on the public, and served to prove to them, in their own way, what the utilities could not in any other way have demonstrated to the public.

I believe that we are rapidly approaching finally an era, following this era of Regulation, and that I may perhaps call the era of Recognition. I believe a new policy with respect to public utilities is forming in the public mind. I believe that policy can be accepted freely by the utilities, and accepted by the public. The first admission in connection with that policy should be that the only excuse for a public utility in any community is the necessity for a public service; that without that necessity, the organization of the public utility is not justified; that it is the primary function to serve the public, and not to make any particular sum of money; that standard of service gives the utility dignity in the community as a really necessary public servant, and to the extent which it fulfills that function, it is entitled to the credit of the community for being a faithful public servant; but, coupled with that duty of the utility to the community, there is an equally strong duty on the part of the community to permit the utility a fair and reasonable return for the service which it renders. The measure of what is a fair and reasonable return is not any definite percentage on the capital, but is over and beyond the necessary expenditures for first-class service, the sum which will enable the company to obtain readily all the capital which it needs to give to the community the very highest grade of service. That may be one rate of per cent in one community, and another rate of per cent in another community, but the duty, in the first place, the duty of the utility to serve the public, and the duty of the community to merely make it possible for the utility to render permanently the very best measure of service which the community can have. It is a combination on which there should be no serious disagreement when it comes to apply that theory to the local conditions, and in determining what the companies should be entitled to charge for its services.

I find that most reasonable people will agree to that basis, and by the elimination of a discussion of capitalization, elimination of the discussion of a definite rate of return, and the comparison

of figures with other figures from all parts of the country that have no possible application, a basis of understanding seems practicable, which readily leads to amicable relations and satisfactory conditions.

I believe, Mr. President, as to the future of our public utilities based on past conditions and future prospects, that we have before us an opportunity, as the operators of public utilities which serve the public faithfully, to receive a just return for that service, and through you, as the purveyors of these securities, an opportunity to conserve the investors as well. (Applause.)

The President: We will close our session for this morning.

We want to close up and give plenty of time for the matters of real importance that are coming up. Please be here early to-morrow morning. Just one further moment.

As you know, you are invited to the Cincinnati Country Club any time from now on, golf and baseball games and so on.

(It was moved, seconded and carried that the convention adjourn until Wednesday morning, October 4, at 9:15, A. M.)

WEDNESDAY MORNING SESSION

October 4, 1916

The President: Kindly rise and listen to the invocation by the Rev. Father William J. Anthony.

INVOCATION

The Rev. Father William J. Anthony (Secretary to the Most Reverend Bishop Henry Moeller): Oh God, Who hath ever hated iniquity and loved virtue, Who hath humbled the proud and exalted the lowly, Who hath punished the avaricious and blessed the thrifty, Thou Who hath praised the servant who justly sought to increase his master's trust, grant, we beseech Thee this day, that the hearts of Thy servants here assembled may be freed from all avarice and any unlawful lust for wealth, and that they may enjoy the light of Thy wisdom, consider the duties of their calling, and that they may work for Thy glory, and that they may merit Thy blessing, Thy praise, and Thy reward—Who liveth and reigneth forever. Amen.

The President: We are privileged this morning to have a visitor from the Far South, one who is conducting on behalf of the Alabama Bankers' Association, a remarkable campaign for diversification of farming, the better study of agriculture in connection with rural banking and, I take great pleasure in introducing to you Mrs. G. H. Mathis, of the State of Alabama, the Field Agent and Agricultural Lecturer of the Alabama Bankers' Association, who will talk to us about that work.

DIVERSIFICATION IN FARMING

MRS. G. H. MATHIS
Alabama Bankers' Association

Gentlemen of the Investment Bankers Association: I am very glad to be with you and I am glad to represent the bankers of Alabama.

There has been, and is a great need in the South and a great desire on the part of the people for lower interest rates and cheaper money. Well, we need it, to say the least, and we would be very glad indeed to have it.

Our people are quite clamorous for six per cent money, and—well, the bankers of the South, especially in the rural districts, if you will notice their bank deposits you will note that they have not a great deal of money. They have not a great deal of money to lend, that is a fact, and the rural banks are not lending out the small amounts that they really have.

We have unfortunately followed a one-crop system of agriculture, and that in the history of the human family has always proved destructive. We are not the only people, by any means, who have done that. The great corn belt of the United States tried to raise corn and nothing more and came to want as you know. The great wheat belt did the same thing, and other parts of the United States have tried tobacco, some have tried fruit, but it does not matter what the one thing is, it brings in money but once a year and expenses go on twelve months. In other words, we have cash three months and credit nine months. We are trying to get away from that. We are determined that we will get away from it, and in the South, where we grow cotton to the exclusion of other things, we can grow anything if we plant it but the trouble is we do not plant it. The South sends out the value of her entire cotton crop for food. The State of Alabama sent out millions, making us buy forty million dollars' worth of food above our cotton crop—that would lead any people to ruin. Of course we have a poor population but then we are changing that, and I only have here a few minutes to talk. In the year 1915 we set out in earnest to change that condition of things in Alabama, and I had the fortune, or misfortune—I do not know which—to work with our

bankers of the State and try to get that condition changed, and try to get the people to plant less cotton and plant more food stuff. The result of the thing last year, according to the Government report, was \$26,000,000 more of feed and food; 14,000,000 bushels of corn more than we had ever grown, a million and a half more of oats, 750,000 bushels more of wheat, and three or four thousand bushels more of peas, and the same amount of potatoes. We went into the hog growing business. We have just started into the cattle business, and that is the way the thing has moved on. This year we had, in 1916, a big corn crop in the lowlands, the great flood and storms in July overflowed our great rivers. Very few people realize how large our rivers are, and what an enormous scope of country they drain. The Tennessee River and another river of the State together drain not only Georgia but the Carolinas, Tennessee and Alabama, and we have a great deal of water to take care of, and I, for my own part, had to take care of 15 feet of deep water on my farm for three weeks. So, of course, there was not any crop left; I had to begin all over again.

Our bankers in Alabama are assisting in this great work very materially. Our people want six per cent money and our bankers are quite willing to handle money for investors, and for the first year they would charge the man who borrowed the money two per cent interest, making eight per cent the first year. After that the money would be six per cent. If you can see your way clear to co-operate with the bankers of Alabama along those lines, they would be very glad, indeed, to assure you of an absolutely safe investment, not exceeding 50 per cent of the value of the property invested.

I am instructed, therefore, to bring that message for your consideration, by the bankers of Alabama. Mr. Keith, of the Agricultural Committee, will be very glad to take it up with you, and you might take it up, if you choose to do so, with Mr. Wells of the First National Bank of Birmingham, Mr. Thomas, president of the Bankers' Association, and Mr. Kyle, President of the First National Bank at Gadsden, and any other banker in the State. You can just look over and see our earning capacity is low, but we are quite ready to raise it, under intelligent methods. We are trying to make our farmers adopt intelligent methods,

but here is a thing that is of special interest to us now: We have a very large class of tenant population; they are about half white and the other half black, and they are a farming class of people—a great many of them come into that class, both the white and black.

I was talking to an audience a very short while ago, of about 300 men and farmers, and sitting on the front row was rather a ratty looking bunch—(Laughter). We have them; I might just as well own it. Still I am a farmer, gentlemen, and I will put that in. I am one of the bunch, and I was trying to get them to change their methods and their ideas, and grow other things besides cotton; and one old fellow said, "Well, ma'am, there are three things I always wuz agin." I said, "What are they?" "I wuz always agin book farmin', the railroads and the Government." (Laughter.) I said, "Yes, and I can tell you three more things you are agin. You are against raising corn enough to feed your stock and family. Don't you buy corn?" "Yes." "And don't you buy meat and lard?" "Yes," he said. "Are you against educating your children? I will warrant your children don't know their A B C's," and with that the whole audience yelled, and one fellow called out, "Billy, shore she's got yer!" (Laughter.)

We are trying to help those people and endeavoring to make them see differently, and what I told our bankers, being a farmer I know the game, when it comes to farming I really do know that game. I said, "We can do a whole lot of persuading, but you have got to do some farming." That is all there is to this game, and as you bankers advance on these crops you have to write out or have written out a plan here and make the man follow it, or he does not get your money. That is all there is to it—make him grow food, and food enough for his family, and to meet all his wants and quit this buying of everything, and he can put the balance of the land in cotton and make cotton, if the boll weevil will let him—and that system has worked, and is working well.

We are trying that out, but here is the thing I especially want to speak to you about. You know that a Bill has passed Congress for the appropriation of \$20,000,000 for the location of a nitrate plant, somewhere in the United States. It has already passed. What we want is that plant in Alabama.

Now, that looks a little selfish, but it is not altogether selfish, because Nature has fixed us for it. We have the second largest water power in the United States, the Niagara being the largest. The Mussel Shoals on the Trinity River is the second largest, and it is capable of developing 680,000 electrical horse-power, and surrounding these Mussel Shoals is the raw material for the making of nitrates. For the making of nitrate there must be coal; coal is quite close by, and there must be limestone rock; the limestone rock juts out into the river bank. You would not have to go 100 feet from the plant to get all the limestone rock they ever would need. Then the third necessity is phosphate rock, and the phosphate beds of Tennessee come down almost to the river's bank.

We have the raw material there; we furthermore have the copper beds. The copper hill district, the Ducktown district, we have also zinc and lead and iron, and calcite manganese—I don't know everything in those mountains! (Laughter.) It is all there, there is not any doubt about it. It is one of the greatest mineral belts in the world. It is undeveloped, that is true, but it is there.

Of course the nitrate plant will have two objects. It has the object of preparation for explosives in time of war, and the manufacture of fertilizers in times of peace. We hope we are always going to have peace and make nothing but fertilizers.

Let us get ready for peace; at the same time we should be ready, if an emergency should arise—and according to the amount of explosives that we have, or the material for making explosives, we have in the United States to-day, we could fight two hours and a half the way Europe is fighting.

The nations of Europe found out, as the whole world found out in 1898, that the civilized world was eventually facing famine, because we were consuming the plant food out of the ground and putting nothing back in. Plants must have nitrogen, phosphoric acid, and potash; those three things must go into the ground to make the plant, and we in turn must have those things in our own bodies, and must depend on the plants to get it.

The world has depended on the nitrate beds of Chile for the nitrates. We are informed by geologists that those beds will be gradually destroyed by the year 1925, and by the year

1940 there will be none left. The European nations were wiser than the United States in that they saw that they had to get ready and make fertilizer for the sustaining of the vast population, so they put in their nitrate plants, and up to now we have none, not one on the American continent, except one that is over on the Canadian side of Niagara.

We have nothing, and we cannot in the South, especially—, grow cotton under the boll weevil conditions without about five times as much commercial fertilizer as we have every year. The State of Alabama, in 1914, produced 1,800,000 bales of cotton. We will not make 600,000 this year. The State of Louisiana has made over 800,000 bales. She is contenting herself with about 300,000, or a little more. You can see that, with the existence of the boll weevil and the impoverished soil, that we are obliged to decrease the crop output. I was making a talk not long ago, and someone said "Mrs. Mathis, they will not grow cotton and all of you wear it, and the man who does not wear cotton here, let him stand up." They said "You want to run that stuff to a dollar a yard." I said "I do not care how high it comes, when people are starving to death, who are crying out." Let us save the people, that is my motto, that live all over the country, and are struggling with these agricultural propositions. We are all arguing and talking about the high cost of living. The high cost of living is exactly in proportion to what the land will produce—exactly in proportion to what the land itself will produce, and on the land that we used to make a bale of cotton, a great deal of it has been so run down now, that it takes four and five acres to make a bale of cotton. We have run it down, down, down, and if you notice the Government report you will see that in the State of Alabama, this year, in the territory that is badly boll weevil infested, that it is going to take from ten to twenty acres of land to make a bale of cotton. A man cannot make a living off that.

There are only, according to the Government engineers about three places in the United States where the nitrate plant could be located, and mind you, we can never make fertilizer in the United States as cheap as it is made in Europe, because we have not the waterfalls. We have to put dams across our rivers and make the fall, to make cheap electrical power and it is an expensive process.

The Government has already set aside this money, and they can afford to put in the dams, and then, if they choose, to lease out the power.

I have here a little bottle; this shows you the fertilizer,—of course, I have a subject, and I am talking about it, as you will discover. (Laughter.) There is the phosphate, the rock, the State of Ohio uses 225,000 tons and all states are beginning to use it. They have to use it, every one of them, because they cannot get along without it. You use 225,000 tons of it right here; there is about 12 per cent plant food in it.

The South, or the cotton growing section, uses 60 per cent of all the fertilizer used in the United States, and in the year 1914, the United States used \$177,000,000 worth of fertilizer, and yet we used only one-seventh as much as Germany and they produce 80 per cent more per tilled acre than we do. For instance, their wheat crop has increased 15 bushels to the acre, and ours has increased three.

The South uses 60 per cent of all the fertilizer that is used. The New England states use some, and then the balance is scattered. If we used as much fertilizer as Germany uses, at present prices, it would cost us \$740,000,000 a year, but if we had this cheaper process that would give us fertilizer at half the cost, and that is what I am trying to get at, it would give us a 60 per cent food at one-half of the cost that we are now paying for it.

Gentlemen, when I speak for this thing, I speak for about eight or ten millions of farmers, that are struggling along under very adverse conditions. I am speaking not only for Alabama, not by a whole lot. Georgia uses more fertilizer than any state in the Union, and it is for these people, and it is to develop the great agricultural section of the United States. The South contains 45 per cent of the agricultural lands, and 55 per cent of the people who follow agriculture.

Our Senators have told us, Mr. Underwood, and others have said this: "Alabama has the location; according to the engineers, you have the raw material, but just a few people here cannot get it. You want to get the assistance, the intelligent assistance of other people, because you know our government goes a good deal by the way things are wanted,"—and there will be

of course some politics in it — I reckon there will be. There generally is in everything.

Gentlemen, I would be very glad if you would pass a resolution favoring the location of a nitrate plant at Mussel Shoals, but I do not ask you to do it blindly. I have some literature here, which we will be very glad to distribute, and there is more of it over at the Union Trust & Savings Bank that contains the whole thing. The average wealthy farmer in Alabama has \$230. He is rich, is he not? They do not get \$500 to the man anywhere, and all ten of these constantly growing states, as you will see, do not equal the one state of Iowa. They have diversified their crops.

Take Arkansas, and they have \$72,000,000 deposits in all the banks of the state. Mississippi has \$71,000,000, and Tennessee has \$151,489,000, making a total of \$295,000,000 in those three southern states.

All three of those together do not equal the one state of Iowa, which has \$551,000,000, Wisconsin \$359,000,000, and Indiana has \$391,000,000, giving those states, the agricultural states, one billion three hundred and two million dollars.

We can do the same thing, and better too, if we will just go after it, for we have the climate, we have the soil, and all we need is intelligent methods and more fertilizer. (Applause.)

The President: I am sure we are all very much interested in hearing from Mrs. Mathis. The question of a resolution favoring the nitrate plant will come up under new business at a later date.

I will now ask for the Report of the Committee on Publicity. In the absence of Mr. Fuller, the Chairman of that Committee, the report will be presented by Mr. W. E. Stanley of E. W. Clark & Co., Chicago.

REPORT OF THE PUBLICITY COMMITTEE

The report of the Committee on Publicity regarding the Blue Sky laws and the review of these laws and their effect seems to show very conclusively the difficulty of obtaining uniform workable legislative enactments on this point.

The activities of the Association in various states during the last two years are set forth in the report of the Publicity Committee.

It appears that the enforcement of these laws in a fair and equitable manner will be even more difficult. The attitude of the Investment Bankers Association toward these laws is well known to have been not against the principle of regulation, but against the methods employed and its effect upon distributors of legitimate investment securities. Comparatively speaking, in the last few years, there has been very little blue sky financing. During the last six months, and more especially the last three months, there has been a tremendous wave of "get-rich-quick" promotions. There has already been a very large amount of stock flotations of doubtful character and it seems advisable that some action be taken by the Association to consider ways and means of combating this situation. The lines of activity usually taken by these "get-rich-quick" promoters have been to offer automobile stocks or stocks of oil companies and compare their flotations with the phenomenally successful corporations, thereby showing that the man who had invested \$100 at the time of incorporation of any one of these successful undertakings, would now be worth several hundred thousand dollars.

Though the older methods of promoting by these "fly-by-night" concerns are still used, a newer method has made its appearance, which is planned in such a way as to make it considerably more difficult to combat them than the older form of promotion. This method consists in publishing a monthly or weekly financial magazine which is advertised in the daily press under such euphonious names as "Popular Finance," the "Financial Instructor," "Opportunity," etc., and offered to the public free for three months. These publications are very cleverly written so as to lure the unwary and unsophisticated, as these clippings will show.

This from an article entitled "Introducing Mr. Pierce Underwood." (In connection with a preliminary prospectus of the Industrial Development Corporation in process of being organized.):

"In his early years, during the seventies to the late eighties, Mr. Underwood ranged from cattle in Colorado to grain and fruit in Southern Michigan and sheep and timber in the mountains of East Tennessee, where he also dealt in raw furs, buying from the hunters and trappers of that region, and where incidentally he held records for rail splitting and turkey shooting. It was in these early days of an out-of-doors life that he developed a physical constitution that has since made him a tireless worker, often working night and day for weeks with but brief intervals of rest in each twenty-four hours.

"In 1897 Mr. Underwood engaged in the advertising business on his own account, and from then until 1905 he represented more than thirty daily newspapers and more than forty weekly and monthly publications, many of which are now, as then, of foremost rank in the public eye.

"In 1906 he sold his advertising interests and made a fortune in the promotion business (mines) which was swept away by the panic of 1907-8, at which time he suffered a two-year siege of nervous prostration — a combination of circumstances that was difficult to overcome.

"After regaining his health, he began again."

This from an article entitled "A Practical Lesson in Finance," published in a magazine called "Popular Finance":

"When the organization of the original D. L. Davis Mfg. Co. was under consideration and its plan tentatively agreed upon, we sent out a letter to a few of our clients stating that the company was in the process of organization and would be financed by the Industrial Securities Co.; that the capitalization would be \$250,000 and the first block of stock available at 40 cents per share.

"A good many waited for further information, but 19 lucky persons sent in orders for stock upon our preliminary announcement. During the week, the Directors, in consultation with ourselves, came to the conclusion that a \$250,000 capitalization would be insufficient, and that it would be advisable to incorporate for \$500,000. We agreed to this upon the stipulation that those who should buy stock upon the supposition that the capitalization would be only \$250,000, should receive just double the number of shares in the increased capitalization. This would only be fair to them and it was up to us to protect their interests.

"Accordingly the person who had subscribed \$40 for 100 shares in the \$250,000 capitalization received 200 shares in the \$500,000. His stock only cost him 20 cents per share. Those who bought at 40 cents after the capitalization was announced at \$500,000, of course received just the number of shares which they subscribed for.

"When the D. L. Davis Mfg. Co. was merged into the Champion Auto Equipment Co., and the capitalization increased to \$1,000,000, it doubled each man's holdings. This meant that the famous 19 persons then had just four times as much stock as they had originally subscribed for, bringing the actual cost of their stock down to 10 cents per share.

"They are now receiving cash dividends of 1 per cent per month—12 per cent per year — on the par value of their stock. This is at the rate of 10 per cent per month — 120 per cent per year — upon their actual cash investment. Later in this issue we will discuss a proposed plan of consolidation of the three tire companies. If the plan is carried into effect, by vote of the stockholders, it will give Champion stockholders three shares of stock in the consolidated company for each share they hold in the Champion Co. That would give the 19 persons 12 times as much stock as they originally subscribed for, bringing the cost down to about 3 cents per share, and making their income, on their actual cash investment, 30 per cent per month, 360 per cent per year! Is that better than 3 per cent per year from money in a savings bank, or 5 per cent per year from a bond? Then, too, are 1,200 shares of stock, worth \$1,200, better than having one's original \$40 remain worth just \$40 and no more?

"The above illustrates the principles that we have always contended for. Capitalists, and subsidized magazines devoted to their interests, would have told you to put your \$40 where it would remain worth \$40 — no more, no less — and where it would pay you from \$1.20 to \$2.00 per year, less what you paid in taxes

on same. They advise that because they want to secure the use of your money, and to pay you a small return for same."

The above article sounds very much like the stories which were passed around the street some years ago about the rat, cat and rabbit farm — the gentlemen who wrote them, however, seems able to multiply faster than the rabbit story.

Of course, these magazines only form the "come-on" for the promotional stock which the so-called investment company is trying to unload at the same time. This type of Blue Sky advertising is confined mostly to mining and the small industrial promotions. The tremendous number of flotations of new automobile companies has been largely handled through newspaper advertising and the appeal is based upon the wonderful profits made by the Ford and other companies.

The scheme is worked out by buying the necessary parts for automobiles, all of which are standard, and can be purchased by anyone from manufacturers, assembling one or two cars which they use for exhibition purposes, and then figuring that by contracting for parts in large quantities, an annual production of 10,000 cars could be accomplished at a very low cost and sold at a very large profit which, of course, would yield enormous dividends to the innocent purchaser of the stock.

That not many, if any, of these flotations will survive is a foregone conclusion. Money is not all that is necessary to run a highly efficient organization and manufacture and market your product. It would seem that it is more than ever the necessity that the distributor of honestly issued investment securities take some action to prevent this outpouring of doubtful stocks and bonds.

There is to-day a much wider interest by the general public in all forms of securities and a growing knowledge and interest among all the people in investments which is explained partly by the educational work done by banks and bond houses throughout the country to popularize the small investment business and also partly due to the wide interest in the spectacular profits made on the Stock Exchange. Therefore, the investment bankers have a greater and more direct reason for taking immediate action to counteract the present flood of false investment flotations than ever before.

As I was writing these few notes, I received a circular letter written by the *Chicago Herald* in which they pointed out that their paper had not accepted some advertising submitted to them. I called up their advertising manager on the telephone and asked if they had any material which they could submit. He brought me over some advertising matter cut out from the Chicago papers, which had appeared there during the last month. I have them here and you can get a fair idea from them of what they are doing. A large part of them start out with the heading "\$100 GROWS TO \$50,000;" and then they ask you to buy. "*History always repeats itself*" seems to me to be their favorite argument.

There was a time when all the money lost in such promotions came largely from the savings banks, but to-day conditions have so changed that a large portion of the money comes from the smaller investor who ordinarily would have placed this money in one or two good bonds of \$100 or \$500 denominations. Therefore, does it not become the *duty* of this organization to take an active interest in the suppression of this sort of business?

What is the best method?

Respectfully submitted,

(Applause.)

SAMUEL L. FULLER, *Chairman.*

(Mr. Stanley continuing): I should like to have some discussion and suggestions on that point.

The President: The report of the Publicity Committee is received and the matter is now before you for discussion. I might say that combating this type of promotion was one of the primary objects of the Investment Bankers Association. Mr. Stanley is quite correct in saying it is really our duty to do all we can. What can we do?—is the question now before us for discussion. And we want discussion on this point.

There are some suggestions of value to be had from the membership, I am sure.

Mr. Moore (Barclay, Moore & Co., Philadelphia): It seems to me, so far as the newspaper advertising of this class is concerned, probably members of this Association and the reputable financial institutions would exert a good deal of influence by withdrawing their own advertising from such newspapers as are disposed to carry a great deal of this flamboyant advertising to which the report refers.

Of course, as an Association we could not very well adopt any resolutions or give any instructions that could be construed in the nature of a boycott, but it seems to me a great deal of influence of a perfectly legitimate business-like and safe character could be brought to bear on the newspapers. While such advertising pays the newspapers while it lasts, yet there is only a certain period during the year which is used. On the other hand the advertising of every legitimate reputable bank and trust company is steady, and their advertising is certainly more valuable to the newspapers than this disreputable and fly-by-night work. I know in Philadelphia, Mr. President, there was one newspaper carried much of that kind of advertising some time ago and it boomed an exchange used for floating this kind of stocks, and many of the reputable bankers withdrew their advertising.

The President: This situation is a new one, but not in this particular state. To-day we have a wave of speculation in oil securities and motor stocks because of the great success met with by certain oil stocks and certain motor stocks. I know if the members of this Association in each city get together and cooperate along the lines suggested by Mr. Moore, there is absolutely no reason why you could not clean up the advertising columns

problems affecting their business interests and their investments. And I say that this Association, having found itself, having defined its policies more or less, can, on subjects which it feels are vital, fall back on these thousands of investors, and get their weight to bear on any problem.

Let them besiege Washington and Albany and get legislation on right lines, as it affects business interests. Take a concrete example: At the last session of Congress a committee of ten, consisting of five Senators and five Representatives, was appointed to study the relations of the Federal Government to the railroads and bring in a report at the next session. This commission was not appointed to find out what wrongs the railroads had been committing; it is not a police committee in any sense of the word, but it is the first step in constructive work on the part of Congress in the investigation of the railroad problem. That committee will give ample opportunity for hearings. It is a fair, strong committee. The railroads are ready to present their case. Undoubtedly the shippers will present their case and possibly labor may present its case. There is going to be nobody to represent adequately the real owners of the railroads,— that is, the investors at large.

I believe, simply as an illustration, that here is a situation: That we can afford to go back to our own clients, each man taking up the question with his own people, and get them to urge right legislation at Washington from their Congressmen and Senators. We cannot do it as we are only 550 strong, but I believe that it is not without the province of this Association to study out the nature of this or any other problem and make our decision on it, embody that decision in a proper circular, letter or booklet, what you will, and mail these circulars or booklets or letters or a series of them, each to his own clients, and ask them to take up their own fight in Washington and in Albany, and in any other place where such legislation is being presented. They should not let it go by default, without defense, but each should take up his own fight and make the investors' influence count, not as 250 men, but as 250,000 men.

This has been sought to be done in one or two cases by investors' organizations. There is running in the New York dailies a large advertisement requesting holders of railroad stocks and



CHARLES W. McNEAR
C. W. McNear & Company, Chicago



CHARLES L. STACY
Stacy & Braun, Toledo



EDWIN WHITE
White, Grubbs & Co., St. Paul



DAVID A. EDGAR
Edgar, Ricker & Co., Milwaukee



bonds to send in their names, to form an investors' organization, to get fair treatment for investors, particularly in railroad securities. Now, that cannot be done, in my opinion; there is no asset in your business and my business so precious as the names of your investors — a list of their holdings. That is what we do business on, and make our money on. We will not give it up willingly.

In this connection I might say that any effort made through these investors cannot be done through a central organization where the names must be given up by the individual members, but it must be done through a central organization preparing the campaign work and sending it to the members.

Now, I want to discuss whether that is a practical work for this Association to do:— to make up our minds on a subject of national importance, whether it be railroads or something else I care not; have our committee in charge of that subject prepare a campaign of education on that subject and then go right back to our individual investors with it.

Mr. Moore: The New York Stock Exchange some years ago appointed a Publicity Committee, and whenever an article appears in a newspaper or a magazine, and it is written by one of the members, and they think the article is of importance to the Stock Exchange in that it carries a message to the general public, carries answers to an adverse criticism against the Exchange, they reprint these articles and send a copy of them to each of the members. They say something to the effect that "We are enclosing such and such an article appearing," say in the New York Times, "how many copies would you like to have for distribution among your customers?" Then we apply for as many as we wish and send them out along with our other notices of purchases or sales, or other correspondence going to our customers.

It seems to me that some method could be adopted here similar to that, that a Publicity Committee of this Association could prepare a little pamphlet of that kind, send sample copies to each member and ask each member to advise how many copies he can distribute. We can then send them in that way with our circulars, or make a special mailing feature of it. In that way we reach the various mailing lists of all the houses in our membership.

The President: There must be two opinions on this subject. Is there anybody here who would have decided objections against sending to his customers educational literature prepared by this Association?

Mr. Stacy (Stacy & Braun, Toledo): Why could we not all send out a pamphlet or circular letter asking for replies, and they would bring many letters on the same subject from all sorts of people? They would all then bring in different sorts of letters from the people. That would be different from sending the same letter and where a lot of letters all of the same general tone come in they generally get into the wastepaper basket. I think we should do away with the duplication of words.

The President: I think the discussion should be at this time not: How to do it, but shall we do it?

Mr. Moore: I do not see any objection to duplication. The more you advertise the more it impresses. It seems to me the more you duplicate the better it would work.

The President: Let us keep to "Shall we" rather than how we shall do it. It is easy for us, with our competent committees, to decide on a method of doing it after we have once decided that we shall do it. But there is no use in doing it unless we have a practically unanimous vote of the Association that it is a good thing to do. If we get our committees to prepare such a campaign of education and then only get 10 per cent of our membership to use this plan the work would be useless.

Mr. Stacy: I am satisfied this Association can bring influence at Washington if every member will pledge himself to co-operate in this campaign and get the hearty support of every investor on his list. It seems we can then be a strong factor at Washington, just as the unions and others working along the same line now do. I would like to hear a resolution passed by this meeting providing for some arrangement for this kind of work, and I would like that resolution to be adopted by a unanimous vote, each member pledging himself to carry out the provisions set forth in the resolution.

The President: Of course the vote here by a delegate from a house cannot bind that house, but it will give a very definite expression of opinion.

Mr. Stacy: I would like to have an expression of opinion.

The President: I would like to hear from any opposition there may be in this session to this proposition.

Mr. Iglehart (Hambleton & Co., New York): The only opposition is that you might be sending out something you do not know the tenor of what it is to be; you may be agreeing now to send out something which you would not care to send out. We presume that literature will be good.

The President: It will all be submitted to each individual house and if they do not like any particular phase of it they will not use that part.

Mr. Iglehart: Then there could be no objection to that line of work.

The President: The cost would be distributed equitably, the cost would be only two cents to each name to which it was sent by each individual house, or it could all be enclosed with other mailing matter.

Mr. Beebe (Harris, Forbes & Co., New York): I consider that consideration has been given to how far the nature of any communications we want to make may go. It seems that the co-operation of the individual members must follow closely in order to determine how far that is to go. For myself, for my own house, I would not care to make any pledge until I know how far we have to go, for we may be interfering in some cases with legitimate business.

The President: The more individuality there is in this work the more effective it will be. You might want to make one sort of an appeal to your people, and we might want to make an appeal from a different angle, and an entirely different sort of appeal to other people. In that way you should supervise the appeal made to your own people.

Mr. Beebe: I think it is a policy on the part of the larger houses to avoid carefully any knocking. In other words, there is a line which is very hard to draw there between legitimate and illegitimate business. In our house they have put their foot down on any disparaging remarks.

In my connection with the Municipal Committee I found one of the difficulties has consisted in an utter lack of co-operation with anyone outside of the members of this Committee itself. I believe more can be done on these lines if we can stir up interest

to make people feel that it is their duty to get in touch with the committee on constructive suggestions which they have to offer.

Mr. White (J. G. White & Co., Inc., New York): I think any of us, who have had direct active association in putting forth our influence on national legislation, agree absolutely with your statement that we can do much if it is done through the Association. During the last year we have seen many examples of it. For example, in the National Security League matter. After they had risen to large membership, and had mayors and people interested in politics heading local committees, then when people saw that there were thousands and tens of thousands of people who took more interest in studying the appropriations for army and navy purposes, it made a great difference.

During the past year I have been interested in checking legislation which we believed to be pernicious, and we found what you have stated, that by getting the local committees interested, getting local business interests to go after the Congressmen, that we could secure a much better hearing at Washington. We believe this particular legislation would adversely affect the cotton industry of the country, in one case lately, and some of us had direct interest in the cotton industry, but we sent a representative south to get in touch with the officers of the cotton mills down there, to see what they could do toward impressing their Congressmen with the need of proper legislation. If we had gone directly to the Congressmen ourselves, we being strangers to them, they would not have been interested in our affairs.

In line with what Mr. Beebe has said, I assume we will all agree, that the best plan is to take up all the subjects of real national importance, and we would not ask our individual members to go in, to come in with their influence and that of their investors, except on something which was really important and it would be only occasionally; then they could use their influence for constructive work instead of destructive work.

The President: Is there any further discussion on this subject?

Mr. Bodell (Bodell & Co., Providence): I presume many houses are represented here by salesman rather than by members of the firms, or by partners, and as to whether with such an important question as this would it not be better to take a letter ballot, a mail ballot, so that the matter could be discussed by the members

of the firms in their own councils, be considered more carefully, and thus bring the matter to a test. Would that not be a good plan, Mr. President?

The President: No house can be represented officially by a salesman. It is contrary to the Constitution of the Association. They are guests. The only vote which can be given is by a partner or a member of a firm. I think we would get a better expression of opinion right here than by a mail vote.

Mr. Hudson (United States Trust Co., Louisville): Let the Committee get out such a letter as they may elect, forward it to each member, and let the members send it to their clients, together with other mail matter. It seems to me that would be the better course.

The President: That is the general idea.

Mr. Hudson: Let those clients then take it up with their national representatives.

Mr. Moore: I move that the Committee on Publicity be authorized to evolve a plan to accomplish this publicity and submit it to the Board of Governors for approval. That will bring the matter before the house for discussion.

The President: The Board will not meet for probably two months. That seems to be one objection to your suggestion.

Mr. Moore: Do you think we can determine on a plan here now?

The President: On the general question, but not on the method.

Mr. Moore: Then I withdraw the motion.

The President: I should like to see a resolution passed, to the effect that it is the sense of this Association that it is possible and desirable to conduct such a campaign.

Mr. Moore: I make my resolution conform to that suggestion.

The President: The Board has referred that back to this meeting.

Mr. Williams (Fidelity Trust Co., Baltimore): Do I understand you to say, Mr. President, that the Board of Governors has considered this matter?

The President: Yes, sir.

Mr. Williams: Will you state, for the benefit of the members not then present, the general nature of the discussion and the tendency of the Board with respect to this matter?

The President: There was no vote taken on the subject, no resolution was presented except this:—The matter was considered of sufficient interest to bring it up before this convention and the Board did not wish to act without an expression of opinion from the Association as a whole.

You have heard the motion. Is it seconded?

Mr. Beebe: I second the motion.

A Delegate: I happen to know of an organization formed some twenty years ago of photo-engravers that had difficulty in making any great progress for some 15 or 16 years until they held a convention in this city a few years ago and elected a man to the presidency of the association upon the platform that he was to be given a sufficient amount of money for expenses to develop the membership of the organization, and thereby increase their strength and efficiency. Money was voted by the executive committee and they employed a commissioner whose sole business it is to endeavor to keep the membership of the association informed as to the developments in the business, and to also bring about the adoption of what they call a "standard scale."

In Chicago they have an organization that is 100 per cent strong — in other words, all in Chicago are members. It seems to me if the Publicity Committee would employ a publicity commissioner, so to speak, whose sole business it would be to keep the membership more closely advised as to what is going on — in other words, instead of issuing a bulletin three or four times a year, and only giving us a broadside of campaign literature just prior to the convention, that if the members could be furnished something every three or four weeks along the lines just suggested, we would be going in the right direction. We should have one man employed, with a private office staff, to look after that work. In that way I believe something would be gained for the members as well as their investors.

Mr. Ettinger: It seems to me if you pass this motion and go to work on the matter which seems important that you cannot fail to have your influence brought to light. After you have handled this subject I have another to bring up, and that is the suppression of the sale of spurious securities.

We are losing hundreds of thousands of dollars' worth of business through literature of this kind coming from New York.

There is nothing more important for this Association to consider than that matter.

The President: Are you ready for the question? The question is: Resolved, that this meeting favors a campaign of education on subjects of national importance and approved by the proper committees of this Association, that the campaign be conducted through the Publicity Committee of the Association, which campaign shall be taken up with the individual houses, with the request that they in turn take it up with their clients.

All in favor say aye. Contrary no. It is voted.

I will ask for the Report of the Municipal Securities Committee, of which Mr. Baker is Chairman.

REPORT OF MUNICIPAL SECURITIES COMMITTEE

In submitting the annual report of the Municipal Bond Committee, your Chairman desires to express his appreciation of the cordial co-operation given him in the work of the Committee by all of its members. Located as they are in different parts of the country, they have nevertheless given very hearty and prompt response to any work which has been brought to the attention of the Committee.

It is perhaps unnecessary to remind you of the unusual demand which has existed for municipal bonds during the past year. From the best available statistics there have been issued by the states, municipalities, counties and districts of the United States, since our last convention, approximately \$476,042,000 bonds par value, exclusive of municipal issues of the Dominion of Canada and loans negotiated for foreign governments by bankers in our country. This has meant, of course, for those of you who are interested in municipal bonds, an active, and, your Committee hopes, a profitable year.

The problem which is constantly before the chairman of any committee is how to direct the great latent power of the Association into some channel which means constructive work, constructive in the sense that the goods which are sold shall be better, and that the general lines on which the business is transacted shall be more satisfactory. It is sometimes comparatively simple to know what ought to be done, but much more difficult to carry that knowledge to an actual result.

Your Committee met during the early part of the present year and attempted to formulate plans and determine on a policy which might reasonably be hoped would lead to something to which they could point and tell you they had accomplished during the year. The results of our work have been encouraging, if not altogether satisfactory.

It seemed that the most definite and practical endeavor should be directed toward the continuance of the efforts of the Association to improve the laws relating to municipal bonds. That there is need for such improvement, we think you will all agree. Municipal bond legislation has never received the attention which its importance demands. Billions of dollars of bonds of this character are now outstanding, — the total net indebtedness of states and municipalities, according to the best figures I can get, at the close of 1915 being approximately \$4,350,000,000. A large part of this debt has been incurred under hastily drawn and inadequate statutes. Many millions of it today represent the cost of improvements which have long since been thrown into the scrap heap, so that the credit and taxing power which should be available for present needs is being drained to pay for the deficit of former generations. Strong as that credit is today, we know that there is a limit to such methods of financing, and that it is precisely at the time when the credit seems strongest that the danger of its over-extension is greatest. We all agree that municipalities can pay, — but are they paying entirely in cash?

It seemed to your Committee that in a large measure the remedy lies in sound legislation. The statute is to the municipal bond what the mortgage is to corporate bonds. Acting as an Association, whose members have sold, and are selling, the municipal bonds of the country, we aim to protect the high security which these

bonds undoubtedly have, to make the American municipal bond not only the best seller to-day, but the safest security possible,—tomorrow and always.

The most familiar safeguard against municipal borrowing is that of the debt limit. The tax limit found in a few states is also intended as a safeguard, although its effect is frequently the increase of long term indebtedness, because of the inability to meet present needs out of the tax levy. The debt limit alone has proven to be not altogether a satisfactory safeguard. It furnishes no protection against long term loans, and no provision for actual liquidation.

When a city is well within its debt limit, the officials for the time being may incur a debt for any purpose, extending its payment beyond its needs, until some years later the city finds itself burdened with the debt of a former generation and prevented by its debt limit from meeting its imperative present needs. The prompt and effective liquidation of indebtedness should be the first consideration,— to make each generation pay its own way. Unfortunately, in a very few states have there been any real effective measures taken to compel such payment of bonded debt, and the gradual accumulation of unpaid debts creates a politically effective demand for increase in the debt limits. We should, in fact, commence at the other end. Proper financing is of more importance than debt limits, and proper financing in the issuing of bonds means first and always the complete liquidation of every debt well within the life of the improvement for which it was incurred.

Your Committee has sought during the past year to emphasize the importance of this particular phase of municipal legislation, and it is perhaps one of the most difficult points to overcome with the average municipal official. When it is done, however,— when the taxpayer of to-day is made to pay for the full enjoyment realized by him from municipal improvements,— the debt limits will rarely be reached. The evil to be combated is a very real one,— the inevitable desire to get something for nothing, to borrow on the credit of posterity for our own comforts and luxuries,— a desire to which political officials are very prone and taxpayers nothing loath.

Before leaving the question of limits, your Committee desires to call attention to the practice which unfortunately still obtains in some states, of limiting the tax levying power referred to above, which legislatures have intended as a safeguard against increase of debt. This seems to your Committee so thoroughly out of date that further comment here is perhaps unnecessary, except to urge you, whenever possible, to use your best endeavors to show how utterly illogical and costly such provisions are. A large buyer of municipal bonds called to the attention of your Committee a provision on this point contained in the statutes of Ontario, which we think important enough to embody in this report, that it may be of use to members in dealing with a situation where it might not be possible to obtain the total abolition of the tax levying limit:

“(1) Subject to sub-section 13 of Section 397, the council of every municipality shall in each year assess and levy on the whole ratable property within the municipality a sum sufficient to pay all debts of the corporation, whether of principal or interest, falling due within the year, but shall not assess and levy in any year more than two cents on the dollar on the assessed value of such property according to the last revised assessment roll, exclusive of school and local improvement rates.

"(2) If the aggregate amount of the rates necessary for payment of the current annual expenditures of the corporation and the principal and interest of such debt exceeds the rate mentioned in sub-section 1, the council shall assess and levy such further sum as may be necessary to discharge such debts, but shall not contract any further debt until the annual rates are reduced to that rate."

This suggestion of what might be called "a protected tax limit" is made, not because we think it desirable, but because it is an improvement over the laws creating tax limits which now exist in some places, and we think should only be suggested where it is absolutely impossible to secure the total abolition of the tax limit.

None of us, as investment bankers, are averse to municipal borrowing. We are, however, averse to reckless borrowing and we are very keenly concerned in municipal paying and in the security back of the bonds which we sell. And it is right here that every member of the Association, certainly every one who is at all interested in municipal bonds, has a large field of active endeavor, to so urge in our dealings with municipal officials the importance to pay as they go as to make it fashionable with all issuing municipalities.

We know that municipal credit is high, and we can gauge the credit of a particular municipality, first, by its present low debt rate, and, second, by its general character and record. In the last analysis the latter security is the best, and the low debt rate is of value only insofar as it represents the conservative character of the municipality. What we want is a more permanent and a more general security,— the security of a permanent policy written into our state constitutions and statutes, which shall insure the liquidation of municipal debt and prevent the gradual piling up of that debt.

Added importance attaches to these facts when we remember how rapidly municipal authorities are enlarging governmental functions. In many communities we see them not only owning and operating the water systems but acquiring the gas and electric light, and in some cases street railway properties. The more borrowing the municipality does, the more important it is that it be done well. So that the first point which your Committee has endeavored to emphasize during its work of the year, and desires to impress upon this convention is *the importance of limiting the life of the bond to the probable life of the improvement.*

This brings us to discuss very briefly the serial bond. It is gratifying to record here the previous work done by the Association as a whole and through its individual members in emphasizing the importance of the serial bond. Your Committee believes that this work is beginning to bear fruit and this form of bond is becoming more and more popular, not only with the buyer but with the issuing municipality. There has been a great deal written in favor of the serial bond and its importance has been emphasized time and again on the floor of our conventions, the emphasis frequently being laid on its lower net cost to the taxpayer. Making due allowances for exceptional cases, there can be no question but that the average municipal sinking fund has been poorly kept, that its rate of yield is frequently less than the rate of interest on the bonds, and that occasionally it is diverted or dissipated. The fact is that a great many long term bonds are not retired out of the revenues at maturity. They are refunded in whole or in part and the debt extended beyond

the original authorization. But when all has been said on both sides of the question, there remains the primary and simple fact that if a municipality can borrow without extra cost in such a way that it will be able to meet its debt at maturity, then there is no reason whatever why it should try to borrow in any other way. We think the investment banker of the last generation was probably largely responsible for the long term bond. Only a few years ago many of us felt that such issues were more desirable as investments and we were willing to pay more for them. The education of recent years, however, has been in favor of a wiser policy.

The second point on which your Committee desires to lay emphasis, therefore, is to *urge a continuation of the efforts which we have been putting forth for several years in favor of the serial bond.*

You are all familiar with the increasingly large amount of bonds which are being sold by counties, or districts thereof, for the purpose of improving the roads. There are perhaps more country road bonds on the market at present than at any time in the history of the country.

In issuing these bonds the county authorities, sometimes because of the statutes, sometimes because of the attitude of the taxpayers, have made the bonds practically protected only by the property in the district of the county in which the roads are built. It seems to us that this is unwise and costly. Why should a county not borrow its funds at the cheapest possible rate? They have no intention of avoiding payment,—therefore why not, instead of making it a semi-county bond, create a direct and full county obligation? In most cases this would mean a real saving in the rate at which the money would be loaned and the county would be benefited to that extent. In fact, we understand that this practice now obtains right here in your own state of Ohio.

Your Committee endeavored to obtain reliable data regarding the probable life of the roads which are being built in various sections of the country from the proceeds of these road improvement bonds. This investigation developed the fact that the Highway Commission of the State of Tennessee has in preparation a pamphlet in which the condition of the roads built from bond issues would be thoroughly analyzed. We are advised that this information will not be ready for distribution prior to the first of next year. There has also been issued by the National Department of Agriculture a booklet entitled "Highway Bonds," being a compilation of data and analysis of economic features affecting the construction and maintenance of highways financed by bond issues, which we commend to the members of the Association. We have also found that some counties are issuing their bonds with special tax provisions for the maintenance of the roads built with the proceeds and that the results where this is done have proven satisfactory. Unfortunately, this provision is not made in all cases, but the general attitude of the country toward road bonds is certainly improving.

With the idea in view of carrying to a definite conclusion, at least in some small degree, this improvement in bond legislation, your Committee had prepared by counsel a suggestive draft of a municipal bond act to be used, not as a model, but as a working basis for statutes, to be adapted to the constitutional requirements and needs of the different states. As the title indicates, this Act was not a model in the sense that it was suitable for every particular locality, but that it

contained essential provisions and safeguards for sound municipal financing. I will not read a copy of this draft, as copies are available.*

Your Committee also began the preparation, with the assistance of Counsel, of a pamphlet embodying the general particulars governing bond issues. In it we attempt to show the evils to be cured and remedies to be applied. We endeavored to point out to municipal officials the better way for them to issue their bonds, and as far as possible to point out to them that it was to their interest to observe the ordinary conventions and demands, which municipal bond buyers make, believing that they would ultimately see that it was greatly to their advantage to so create their bonds from the beginning of the proceedings as to make them most desirable and most marketable. This pamphlet will be ready for distribution, your Committee hopes, in the near future. No plan has been decided upon as the best one through which to have it reach its final destination. It will in due time be published in full in the Bulletin.

I said in the beginning that it seemed to your Committee that "in a large measure" the remedy for the ills of municipal financing lies in sound legislation. I want to emphasize the words "in a large measure," because in a very real sense the remedy also lies with the members of this Association in their attitude toward municipal bond issues. Your Committee certainly has no desire to indicate to the individual members of this body whether in any particular case a municipal bond is sufficiently safe for them to buy. What we are urging is against such an enthusiasm for business as will allow us to sanction a loan by a municipality when many, or all, of the safeguards which should be thrown around the loan, are lacking. There is nothing which will so impress upon the minds of municipal officials that their laws are wrong, that their sinking funds are ill-kept, that their methods of handling municipal accounts are out of date, as for representative investment bankers to refuse to handle their bonds. The medicine may not be pleasant for them to take, and it may be costly for us to give, but in the final analysis it is better for both them and us.

With the hope that some legislation of this character, which might be regarded as a model for other states to follow, could be passed, an earnest endeavor was made to enact a new municipal bond law for the State of New York but unfortunately at the last moment the Bill failed of passage. We believe, however, that as a result of the sentiment for the Bill, or a similar one, which was developed, that it will be possible in the near future to carry this program through. In the State of New Jersey a new municipal bond law was enacted, which, while not in any sense ideal, your Committee feels was a decided step forward, perhaps the most striking advance being the substitution of a single statute governing the issuing of municipal bonds for the hundreds of individual laws previously on the books, many of them conflicting or uncertain. We believe that with a few amendments, which the practical working out of the law will probably make necessary, the law will greatly improve the issuing of municipal bonds in that state.

Your Committee has been gratified by the number of requests from various municipalities throughout the country for information which would be helpful to them in improving their municipal bond statutes. These inquiries have been handled by the counsel or by the member of the Committee most closely in touch

*See page 165.

with the situation involved. In one state a member of the Committee was requested to be present at a meeting of the League of Municipalities for the state, in which the League requested that we submit to them a form of act providing that all their bonds should be issued in serial form. Another interesting illustration of this is the effort at this time being made by members of the Association in Texas to create a sentiment in that State for a radical change in its municipal bond laws. We were advised only yesterday that the idea of making the maturity of bond issues, especially road bond issues, more nearly correspond with the life of the roads, is meeting with general approval and the serial bond is also looked on with favor. A number of other instances could be cited, all of which point in the one direction: that the constant work of our members is gradually beginning to tell.

Your Chairman cannot emphasize too strongly the importance of the work already done by the Association, through its individual members, in strengthening the general municipal bond situation. The results which have thus far been obtained only emphasize the importance of the fact that while the results of this constant work are not always seen the cumulative effect is enormous.

We suggest in closing that the slogan of the municipal bond dealers of this Association for the coming year, and for all the years, shall be: "*A municipal bond—always good, and year by year growing better.*"

Respectfully submitted,

WILLIAM G. BAKER, JR., *Chairman.*

SUGGESTIVE DRAFT OF MUNICIPAL BOND ACT

To be used, not as a model, but as a working basis, for statutes adapted to the constitutional requirements and needs of the different States.

* * * * *

This plan of act is the result to date of several years' work, based on the present statutes of many States, the suggestions of different counsel, investment bankers and municipal and state officials. It is published at this time, both for its value in connection with actual legislation and to invite further criticisms and suggestions. It is but a part of the general movement for better municipal, financing and bond legislation. This movement is making rapid progress and is reflected in many recent bond statutes and municipal charters. The Municipal Bond Committee of the Association is helping in this work wherever its suggestions are desired, and will be glad to hear from the members or from any municipal or state officials and to co-operate in any effort to draft general legislation for any of the states.

* * * * *

Section 1. *Power to Issue.* Any county, city, town or other political subdivision, hereinafter called a municipality, shall have power under this act to borrow money and issue its negotiable bonds for any purpose or purposes for which it is authorized by law to make an appropriation, including any purpose for which it is or may be empowered to issue bonds under any other act, provided that no bonds shall be issued hereunder to pay for the maintenance or current upkeep of any municipal office, department, property or improvement or for current expenses.

Section 2. *Authorization.* Such bonds shall be authorized by resolution, subject to the provisions of Section 6. Such resolution shall state the purpose or purposes to which the money to be raised by such bonds is to be applied and the amount of money deemed necessary therefor. It shall authorize such bonds in an amount not exceeding by more than five per centum the amount of money to be raised, and shall fix or limit the rate of interest not exceeding six per centum per annum, payable semi-annually, and shall state the maturities of said bonds as provided in Section 7.

Section 3. *Sale.* Such bonds shall be sold at one time or from time to time at not less than five per centum below par on sealed proposals or public auction after ten days' notice of such sale by publication at least once in a financial paper published in the City of New York or Chicago and also as provided in Section 10. Two or more issues of bonds of the same or different maturities or rates of interest may be sold under one bid. Such notice of sale shall state the terms of sale of such bonds and may require a certified or cashier's check for at least one per centum of the amount of bonds bid for, drawn upon a national or state bank or trust company, to secure the municipality against any loss resulting from the failure of the bidder to comply with the terms of his bid. Such bonds may, however, be sold at private sale by unanimous vote of the governing body with the approval or consent of the chief financial officer of such municipality. Any such bonds, or any part thereof, may also be purchased without public sale for any sinking fund of such municipality, but shall not be re-sold except as required by this section.

Section 4. *Execution; delivery; registration.* Any bonds issued under this act shall be signed by two or more officers, including the chief executive and a financial officer and under the seal of such municipality. The delivery of such bonds so executed within five days thereafter shall be valid notwithstanding any change in such officers or in such seal occurring during such time. Such bonds may be payable in gold coin or other lawful money at the office of the proper financial officer of such municipality or at any bank or banking or investment house or trust company in the City of New York or Chicago, and may be either registered or coupon bonds, and if coupon bonds such coupons shall be signed in facsimile by a financial officer thereof and such bonds may thereafter be registered as to principal and interest by a financial officer of such municipality, who, with the chief executive officer thereof, shall sign a statement endorsed thereon, evidencing the destruction of all unmatured coupons and the registration of such bonds. Such bonds may also be registered as to principal only, and when so registered may be transferred to bearer.

Section 5. *Use of Proceeds.* The proceeds of any bonds issued under this act shall be applied exclusively to the purpose or purposes for which the same are authorized, provided that the governing body of the municipality, may, by resolution subject to the provisions of Section 6, reappropriate any part of such proceeds to any other purpose or purposes for which bonds may be issued hereunder.

Section 6. *Referendum.* Before issuing any bonds under this act, the governing body shall cause the resolution authorizing such bonds to be published or posted in the manner prescribed by Section 10. If, within ten days from the publication or posting of such resolution a protest or protests against the same shall be filed in the office of the Clerk of the municipality, signed either by one-third of the

governing body adopting such resolution or by ten per centum in amount of the assessed valuation of the taxpayers thereof, whose names appear on the last preceding assessment roll of real property thereof, then such bonds shall not be issued, unless within sixty days after such publication or posting, a proposition for the ratification of such resolution shall be adopted at an election to be called and held for that purpose by a majority of the voters voting on such proposition. The governing body may also, without receiving any such protest, submit such resolution to the voters as herein provided. At such election only voters entitled to vote for an officer and women qualified to vote for an officer, except as to sex, owning real property assessed in their names on the last preceding assessment roll of such municipality shall be entitled to vote. At least ten days' notice of any election under this act shall be published or posted as prescribed by Section 10. Such election shall be held and the result canvassed as in the case of other elections in such municipality. The result of such election and the validity thereof, shall after the delivery of any bonds under Section 9 be deemed to be conclusively established by the notice stating such result published as provided in such section.

Section 7. *Serial Maturities.* All bonds issued under this act shall mature in not exceeding forty years in substantially equal annual instalments, or in annual instalments the amount of which in any year shall not be increased over the amount of prior instalments in a sum exceeding the reduction in the annual interest caused by the payment of such prior instalments. The first of such instalments shall mature in not exceeding two years. Bonds payable in whole or part out of special assessments shall mature in not exceeding ten years. Unless all of such bonds shall mature within ten years, the resolution authorizing the same shall determine and declare the probable period of the usefulness of any improvement or property for which such bonds are authorized or the indebtedness to be funded thereby was incurred and all such bonds shall mature within the period so declared, and if such bonds are issued for two or more purposes such resolution shall declare the probable average of such periods for the different purposes, taking into consideration the amount of the proceeds to be applied to each purpose, and all such bonds shall mature within the average period so declared, provided that forty years shall be deemed to be the period of usefulness hereunder of any property or improvement determined and declared as above to be perpetual in character. Provided also that nothing herein shall prevent the issuance of bonds to refund any bonds for the payment of which at maturity no adequate funds shall have been provided, which refunding bonds shall be payable in annual instalments, the first of which shall be in an amount not less than two per centum of the principal to be refunded, and the instalment of each succeeding year shall be increased by an amount not less than the reduction in the annual interest caused by the payment of the instalment of the preceding year.

Section 8. *Limitation of Debt.* No indebtedness shall be incurred by any such municipality which when incurred, shall cause the indebtedness thereof to exceed (a) in the case of a county per centum; (b) in the case of a city or town per centum; (c) in the case of a school district per centum, and (d) in the case of any other subdivision or district per centum, of the average of the three next preceding assessed valuations of the taxable real property thereof; *provided* that in determining the amount of any such

indebtedness there shall be deducted all sinking funds and other funds held for the payment thereof; and, *provided* also, that the word "indebtedness" as used in this section shall not include (a) indebtedness payable within five years from its date unless provision for its liquidation within that time has not been made or is not being maintained; (b) indebtedness incurred for the supply of water; (c) indebtedness the payment of which is fully provided for by special assessments; (d) indebtedness incurred for any purpose from the carrying out of which the municipality derives a revenue, the payment of the principal and interest of which indebtedness shall have been adequately provided for from such revenue after deducting operating expenses, during the three preceding fiscal years. The amount and character of any such existing indebtedness of such municipality, and all facts relative thereto, may, for the purpose of this section, be conclusively determined prior to the issuance of any such bonds by a statement under oath or affirmation of the chief financial officer of such municipality filed in the office of the Clerk thereof. No statutory limitation of the taxing power shall prevent the levy of any taxes necessary to pay any bonds issued within the limitations of this section.

Section 9. *Determination of Validity.* At any time prior to the delivery of any bonds by any such municipality a notice, signed by one or more of the officers intending to execute and deliver such bonds, may be published or posted as prescribed by Section 10, which notice shall state the amount, purpose, maturities and rate of interest of such bonds and that such bonds have been duly authorized by this act and are to be delivered on or after a named date, which shall be not less than twenty days after the publication or posting of such notice, and shall also state that when duly delivered and paid for, such bonds will become incontestible on any statutory ground in the hands of the holder thereof. Such notice may state whether or not an election has been held under this act and the number of votes declared to have been cast at any such election, both for and against the proposition for the issuance of such bonds. Such notice shall be published or posted before or after the sale of such bonds or with the notice of such sale or as a part of such notice. On delivery of and payment for such bonds, executed as provided in Section 4, on or after the date named in such notice and not less than ten days after the date named for the sale thereof, then, unless the contrary shall affirmatively appear by such notice, such bonds shall, in any action or proceeding involving their validity, be conclusively deemed to have been authorized by this act and to have been issued, sold, authorized and delivered in strict conformity herewith and with all other provisions of statute applicable thereto, and such bonds are hereby authorized to be issued, anything herein or in any other statute to the contrary notwithstanding.

Section 10. Any notice, resolution or ordinance required or authorized in this act to be published, shall or may be published in a newspaper published in such municipality, or if no newspaper is published therein, then in a newspaper published in the county and having general circulation in such municipality.

Section 11. Bonds may be issued under this act by any county on behalf of any defined district of such county, not constituting an incorporated municipality. The general credit and taxing power of such county may be pledged to the payment of such bonds, but adequate provision for their payment shall be made by tax, assessment or other revenue within such district, and the county shall borrow tem-

porarily, if need be, to meet the principal and interest of such bonds, pending the collection of such revenue. Such bonds shall for the purpose of Section 8 be deemed to be the indebtedness of such district and shall not be included in the indebtedness of such county.

Section 12. *Other Acts Superseded.* This act shall, after, 19 . . . , supersede and repeal all provisions of statute authorizing the issuance of bonds by any such municipality or imposing conditions or limitations thereon, but shall not supersede or affect any provisions of law authorizing the issuance of any notes or certificates of indebtedness or revenue or deficiency bonds, which notes, certificates and bonds shall mature in not exceeding five years.

Section 13. This act shall take effect immediately.

Mr. Baker: We are very fortunate in having with us this morning, a man who is very much interested in municipal bonds from the other side of the question. I am glad to present to you Mr. Charles F. Cushman, of the New York Life Insurance Company, who will address us.

Mr. Charles F. Cushman (New York Life Insurance Co., New York): The few moments that you have kindly allotted to me I wish to devote to criticism of the manner in which many municipalities have imposed, by legislation, a general limitation on the amount of the tax which may be levied, without excepting from said limitation those taxes which must be levied to pay their bonded indebtedness.

In keeping with the subject of my address — *Tax Limits* — your Committee has taxed me to limit my remarks to five minutes. In order that I may do so, I ask your indulgence while I read what I have to present.

TAX LEVY LIMITS

CHARLES F. CUBEMAN
New York Life Insurance Co., New York

Municipal securities are distinguished from the obligations of general corporations, and bonds secured by mortgages, in the fact that, for the payment of the latter class of securities, there is pledged the property of the corporation, real and personal,—generally all the real estate in the case of bonds secured by mortgages,—and the class and nature of the property is specified in the indenture. Speaking generally, the only security behind municipal bonds is the taxing power of the municipality. Therefore, just as in the case of corporation bonds and real estate loans, any limitation on the property pledged or title to the real estate involved affects the security of the loan, so in the case of a municipality, anything which would affect or limit its taxing power would affect the security of its bonded obligations.

Several states, by statute, have imposed an unconditional tax levy limitation. Some of our municipalities have imposed a limitation on the tax which may be levied, in the very act or ordinance authorizing the issuance of its bonds. While it may have been intended only to curb the extravagance of a community, it is in itself, from the standpoint both of the municipality and the investor, a vicious form of legislation. The obligations themselves will ordinarily recite that for their prompt payment, the municipality pledges the full faith, taxing power, credit and resources of the borrowing community. Such a recital is *in fact a misrepresentation*, if, at the same time, there is any unconditional limitation upon the amount of the tax which may be levied.

Many bond attorneys in passing upon the legality of the proceedings of a municipal bond issue will only inquire whether the tax so limited, levied on the then assessed valuation, would be sufficient to pay the first year's accruing interest and the first year's aliquot part of a sinking fund, assuming that if such tax is sufficient, the bonds are legal at their inception, and ignoring altogether the fact that if the assessed valuation should decrease in the future, the amount of the tax so levied might be altogether insufficient to furnish a proper amount to pay the bonds at their maturity. As such attorneys are reporting to their clients, who



WM. R. COMPTON
Wm. R. Compton & Co., St. Louis



GEORGE H. TAYLOR
E. H. Rollins & Sons, Chicago



WARREN S. HAYDEN
Hayden, Miller & Co., Cleveland



RICHARD L. MORRIS
Kean, Taylor & Co., New York

are bond houses and who intend to sell the bonds if purchased, perhaps they feel that they have done their full duty to their clients; but such an opinion is insufficient for purchasers for investment, such as banks and insurance companies who intend to hold the bonds to maturity and to whom the question of security for their ultimate payment is most important. In my opinion bond houses might well ask their attorneys to report, not only on the sufficiency of the tax at the time of the issuance of the bonds, but also on the question of an unconditional provision for a general tax throughout the currency of the bonds sufficient to pay the interest and satisfy the principal.

That this is not an academic question is shown by the situation in New Orleans, where the question of priorities and tax limits has been ascribed by one of the leading bankers as the main cause why its bonds have not been popular in certain markets. I refer to the address of Mr. R. S. Hecht, Vice-President of the Hibernia Bank & Trust Company of New Orleans, on "Municipal Finance of New Orleans," delivered before the Tulane Society of Economics this year.

The City of Birmingham, Alabama, as you all know, has experienced considerable difficulties due to the limitation of its tax rate. Ohio municipalities, even with 100 per cent assessed valuation, combined with a one per cent tax levy limit, have found the limitation so inelastic as to demand immediate relief.

To many, an unconditional tax levy limitation is a more serious defect in a municipal bond issue than is a legal defect. In the latter case, the courts uniformly have been prone to disregard legal technicalities in determining the validity of the obligations of a municipality, otherwise legal, but when it comes to a question of statutory tax levy limitation as affecting the security itself, the courts are powerless. This is a matter for inquiry by the investor himself.

I believe that if this matter were sufficiently and urgently called to the attention of state legislators, or the authorities of any municipality where a tax levy limitation obtains, and such limitation affects the price to be obtained for the securities of such municipalities, steps would be taken to remove this serious objection. To those states and cities desiring to retain such limitation, attention might be called to the provisions of the Statutes of Ontario,

which — after imposing a limitation of two per cent on the assessed valuation as the limitation of the tax which may be levied in any one year — further provides, that, if the amount necessary to be incurred for the current annual expenditures of a municipality, and the provision for payment of the principal and interest of its debts, exceeds the amount which such tax levy would raise, the council of such municipality may exceed such tax levy limitation, but shall contract no further debt until the annual expenditures are reduced to such an amount as would be solved by the tax levy limit. While Ontario imposes a tax levy limit, the effect of the paragraph just quoted is really an effective limitation on its *indebtedness* rather than in any way limiting *the amount of the tax* which may be imposed *to pay* its indebtedness.

The criterion by which the security of any municipal bond issue should be judged, it seems to me, is whether everything has been done and nothing left undone to pledge the full faith and credit of such municipality to the payment of its bonded obligations; and if there is any unconditional limitation of the rate of tax which may be levied, then, judged by such criterion, the security behind the obligation is so far impaired.

In closing, I wish to repeat what I have already stated that in my opinion bond houses might well ask their attorneys to report, not only on the sufficiency of the tax at the time of the issuance of the bonds, but also on the question of an unconditional provision for a general tax throughout the currency of the bonds sufficient to pay the interest and satisfy the principal. (Applause.)

Mr. Baker: Gentlemen, I should like very much to get an expression of opinion, first of all, on this topic —“1. Is it practical, and if so, would it be for the good of the members of the Association to have a clearing house for municipal bond opinions?”

I want to speak briefly of what the Committee had in mind. It has frequently been suggested that one of the chief defects of municipal bonds is their lack of marketability. This defect in many instances is due to the inability of the seller to obtain legal opinion.

It has been suggested that some plan might be worked out, where, through a central organization or in a central office, which might be agreed upon, from now on, if need be, eliminating the great mass of opinions which have been accumulated, there

would be lodged either the original opinion, or a certified copy, or a notation where those opinions could be found, so that if a seller who came to you with a municipal bond with which you were not familiar, by reference to your files you could locate through this Association, where either the opinion, or knowledge of where the opinion could be found. Now, the question is simply whether such a scheme is practicable, and if so, would it be for the good of the whole Association to work it out? I should like to hear from anyone on either side of the question.

Mr. Matthews (Robert Garrett & Sons, Baltimore): Mr. Chairman, it appears to me that the matter of this topic lies in the fact that the marketability and delivery of the municipal bond issues is contingent upon their being accompanied by a legal opinion; without their being accompanied by such an opinion their salability is very much injured. Therefore, I am of the opinion that if in the details of the delivery and the marketability of municipal bonds, we can do away with anything that detracts from that marketability, we will not only be doing something from an ideal standpoint, as practical, but which, from the general public viewpoint, will be of advantage to the security.

I am of the opinion that there is some opposition, how strong it is I do not know, to establishing a central clearing house for bond opinions. That opposition is justified from the viewpoint of those who choose to oppose it, if by the absence of such clearing house, they, from their business standpoint, have an advantage over their competitors. I think in the past that advantage, among the houses which have diligently compiled files including a great variety of the municipal bond opinions, has been tangible, but I do not think at the present time, when the requirements on opinions are so essential to bond deliveries, that the value of those files is what it has been, for the opponents feel that they have in their possession legal opinions which the newer houses cannot provide. I think they are entitled to hold on to them, unless they see fit to be generous and give those of us who are not in touch with a good situation the advantage of it; but looking ahead, I do not think that we are helping ourselves as dealers or helping the municipal bond market, as a proposition, by eliminating this legal opinion consideration.

Just as to the best means of having a central bureau, I think it is open to debate, but there are two ideas which I have to submit, whether or not this is the place to submit them, I am not certain. One of them is this: I feel that it would be practical to have the expression not only of those directly interested in municipal bonds, but likewise the houses so interested in corporation bonds, that a delivery of municipal bonds shall not be a good delivery unless accompanied by an opinion. Even among the dealers, themselves every purchase seems to have been qualified by the statement that this is made subject to the bonds being accompanied by a legal opinion, and I feel if that were generally expressed as part of a good delivery there would not be the necessity of having this delay in the delivery as now.

With respect to the practical way of getting at a bureau or clearing house, I think that lies very largely with the savings banks. I do not know a more logical place, if we could get the co-operation of them, than to centralize those opinions there. They are dependent on the dealers very largely; they express their appreciation of the dealers' co-operation, and I think if we could get them to let us have access, upon request, to certified copies of such opinions as are filed with that department, that it would cover a great majority of the cases which we need to have covered. I personally am heartily in favor and endorse the establishment at the discretion of the Municipal Bond Committee of some central clearing house for legal opinions on municipal bonds.

Mr. Meiners (John E. DeWolf & Co., Milwaukee): Some years ago in Milwaukee the administration asked me to advise with them as to the technical arrangements for a bond issue. We checked up things and discovered that, for instance, there was no provision as to registration of bonds. Past administrations, however, had registered a lot of bonds, and that when it came to a matter of transferring these bonds, there were no provisions for registering them back, or to bearer.

We also checked back as to the original records and found that in practically every case no record had been made as to who had purchased the bond; so that for bonds which had been issued 15 or 20 years ago, it was absolutely impossible to trace the original purchaser, and to secure a legal opinion, when required.

We therefore worked out this proposition, that with all future bond issues the city would request the purchaser to forward a certified copy, or an original copy, of the opinion of the attorney, and that should be placed on file and be accessible to any person who wished to see them.

Recently Milwaukee has been purchasing the legal opinion before selling the bonds, so that in all recent cases it is possible to get a certified copy directly from the city authorities.

My suggestion would be that members in the future would deposit with the Secretary's office one original of the legal opinion on every bond issue that does not require a full transcript; that for a charge of 25 cents, or 50 cents, the Secretary's office issue a copy certified by their notary of the opinion. If it is necessary to go any further than that, it might be possible to publish in the Bulletin, at times, an index of such opinions which have been filed.

We find where we sell to banks in the state that they frequently desire those bonds for postal savings, without notifying us, and that later, over a single thousand dollar bond, it may be held up and also a larger block, which requires a month's correspondence with the Department to determine whether or not that particular bond has been approved for sale, and I believe, therefore, that with these opinions there should also be a notation as to whether or not the bond had been approved by the Postal Savings Department. (Applause.)

Mr. Hecht (Hibernia Bank & Trust Co., New Orleans): I want to endorse the statement made by the gentleman from Milwaukee. We are comparatively small dealers in municipal bonds, but I do not see how any of our members would give up any information which is of great value to them by depositing their legal opinions in such a clearing house, preferably with the Secretary of our own organization. When we sell municipal bonds our ambition is to give them as wide a market as possible. We know that we cannot sell them without a legal opinion, but we want our customers after they have bought them to be able to sell them, if not to us, then to somebody else, and I do not see any serious objection to a deposit of every legal opinion on municipal bonds that we handle with the Secretary's office, and I want to endorse most heartily that suggestion.

Mr. Hodges (Remick, Hodges & Co., New York): I am heartily in favor of the idea of some central depository for legal opinions, and I think we could go even further than that, and have the original papers deposited where it is possible. I think I can speak for my own house, that we would be glad to turn over all our original papers, as well as the opinions and I think it is highly desirable.

As to the deposit at the Secretary's office, I am a little doubtful as to its advisability. The thought occurred to me a short time ago, and it has a material bearing on that: I asked another large New York house to be kind enough to give me an opinion on a certain bond issue, which I bought from an outside investor, and I was told they would be very glad to do it, but that their papers had been burned some years ago. Now, the safety of those records is of vital importance, if we are to carry out this idea, and I doubt if the Secretary's office is prepared to furnish that adequate security. It seems to me that this depository, whichever it might be, should be an incorporated institution of substantial standing, where those papers might be permanently kept, and be absolutely safe, as long as the bonds are in existence.

Mr. Baker: In line with what Mr. Hodges has just said, a very prominent trust company which is a member of our association, has written a letter to me in which they volunteered in case any definite action was taken on this matter, to handle all the papers free of charge; that is, so far as the storage and custody of papers was concerned, only charging for the actual cost of copying opinions and so forth. I simply mention this to show that the idea is in the air.

Mr. Weil (Weil, Roth & Co., Cincinnati): In regard to the suggestion made by Mr. Hodges, that these should be deposited with a trust company, I would like to ask what is to be done with the clients who require the deposit of the original papers when they purchase.

The President: Duplicate original?

Mr. Weil: There can be only one set of originals, and they actually require the original papers.

The President: Certified copies would be sufficient.

Mr. Hecht: I think we are discussing two quite different problems here, the deposit of the legal opinion, or a certified copy of it,

— that is a very simple matter most everybody, I think, would be willing to do. The question of the deposit of the original papers is a good deal different and more difficult to handle. I know in many cases that it would not be convenient for one reason or another, and I think there might be a difference of opinion on that subject. We ought to have it clearly understood while we are discussing it, with regard to the opinions or the records.

Mr. Baker: In answer to that, Mr. Hecht, your Committee only had in mind the opinions. We think perhaps it is well to go forward slowly. While the other may be desirable, perhaps, what we are trying to do at this time is to make the bonds just as marketable as possible, and if you think this is a step in the right direction, the present Committee, or some other would perhaps undertake to draw up and get in shape the details as to the best way it should be done.

We will have to move along a little bit. Is there any opposition to such an idea?

Mr. Moore (Barclay, Moore & Co., Philadelphia): Mr. President, may I just make a suggestion there of a collateral nature? If it comes to putting this plan into operation, I do not know whether it is practical or not but a corporation bond always refers to the fact that it is required by a certain deed of trust, and it names the trustee. Would it be possible to have municipalities offering bonds to state that the legal opinion is on file with so and so,— for instance, with the trust company?

Mr. Baker: That is sometimes done. Unfortunately, municipal bonds are not issued all in the same systematic way, and at this time it would be almost impossible to insure that a large number of them would have any such standing.

Mr. Prichett (Frazier & Co., Philadelphia): It seems to me that this is something that before any definite action is taken we should leave for further consideration. As we all know, the tendency is toward technicalities by the big attorneys. Very often when some slight question is raised and our attorneys tell us, "We must have a Supreme Court decision on this question," and the same question is passed on by other attorneys of perhaps the same or equal standing.

Is not this going to be a question where, if the filing of an opinion or legal papers with some central clearing house is going

to tend to over-technicality,— is not this more a question for each house to determine? Is this a matter that we ought to rush into without giving it a little more thought than we are doing? I for one would like to hear the sentiment of some of the other houses in this respect before definite action is taken.

Mr. Paine (Union Trust & Savings Bank, Spokane): I think our theory of the Association is that we are working together and we want to adopt those things which will be beneficial to all of us. This plan, if followed, will have no immediate beneficial results, but in future time it probably will be of great benefit to many of us. For example, one of our Western friends was recently called upon to make an investigation as to the legality of an old bond issue which he was seeking to refund. He was unable to find the transcript; the records of the issuing municipality were incomplete and he could not locate the name of the examining attorney. Now, he was not able to complete his transaction. How well it would be if he could write to the office of our Secretary and there obtain a copy or a certified copy of the original legal opinion!

If, after he wanted to make his own legal investigation from this legal opinion, he would learn the whereabouts of the transcript and could then get this transcript undoubtedly from the house of original issue.

I think this scheme is a splendid one, while there may be some objection to forwarding a bulky transcript to the Secretary's office, it seems to me we could all without inconvenience arrange to send to the Secretary's office the original opinions with instructions, with copies to be furnished to our association members. I am greatly in favor of the plan.

Mr. Baker: Mr. President, I think what your Committee would like to have is an expression of opinion as to whether the gentlemen think it would be a good plan for the Committee to work out in some detail, not binding anybody to deposit their opinions. If you think it is a good idea, assuming that it can be worked out, refer it back to the Committee and let them try to work out some plan which will be a practical and efficient way of curing our present troubles. I am ready to hear a motion on that.

Mr. Paine: I move the resolution be made, as the sense of the Convention.

(Motion duly seconded.)

The President: It has been regularly moved and seconded that it is the sense of this meeting that the Municipal Bond Committee should take up actively the question of the deposit of the legal opinions, and the filing therewith with the central office, under the control of this Association.

Mr. Bulkley (Spencer Trask & Co., New York): I should like to offer an amendment to that,—that it is also the sense of the meeting that such filing be done at the Secretary's office. I believe that this Association should contemplate such work in its own organization. These files will be valuable as time goes on, and we might as well get the benefit of them rather than have it go to some other outside concern. There is no reason why the Secretary should not hire a safe deposit vault. I think there is some way in which we could keep this within our own organization, rather than letting an outsider get the benefit.

The President: It has been moved as an amendment that these records or opinions be filed with the Secretary of the Association.

Mr. Stacy (Stacy & Braun, Toledo): It seems to me if this trust company has volunteered to serve in a trust capacity they would be holding those opinions in trust for the Investment Bankers Association.

The President: Any further discussion of the amendment? We will now vote on the amendment. Are you ready for the question?

Mr. Baker: Without attempting to delay the time, I think that if Mr. Bulkley does not insist upon that that he can safely rely on the Committee to handle that in the most judicious way. It might be possible if this amendment obtained, that the Secretary's office would not have a safe place to keep it, and some contingency might arise where if the place was an open question it could be handled perhaps better.

Mr. Bulkley: It could not be handled, Mr. Chairman, if we adopted the suggestion of Mr. Stacy. If any arrangement is made with an outside concern, it would be done in a trust capacity and then you would be all right.

The President: Would you approve of the wording of that amendment, that it be under the control of the Association?

Mr. Bulkley: Yes.

The Seconder: Yes.

The President: It has been regularly moved and seconded, as an amendment to the original motion, that these records be kept under the control of the Association. The amendment is carried.

Now, on the original motion that the Committee be instructed to carry out this work,—on the amendment they voted in the affirmative. Are you ready for the question? All in favor signify by saying aye. It has been so ordered.

Mr. Baker: It was suggested, gentlemen, by one of the members of the Association that perhaps it might be a good plan if it could be done, for the Association, through its Municipal Bond Committee, to agree on what has been called a standard legality clause, a clause in other words, which if you insert in a bid for municipal bonds no other member of the Association, in good form would undertake to have your bid rejected because that particular clause was used. It was not a theory that a man had to use that clause, not by any means. He could safeguard his bid in any way he pleased, or leave it out altogether, and if a man chose to use that clause that it would be considered a good one and a clause to which no one could object. Mr. S. J. Block of Baltimore has a few words to say on the subject.

Mr. Block (Nelson, Cook & Co., Baltimore): This is primarily a simple question of ethics. It is not really as serious as it may sound, nor as important, but so long as we seek to institute reform of a number of difficulties in all branches of the bond business, here is a good place to start on ourselves. Now, as I say, this is a question of ethics, pure and simple. None of us will accept a bond issue of any type from a railroad or any other class of corporation without a legal opinion. You could not induce a single bond house represented here to handle any issue of bonds without a legal opinion. There may be some question as to how good or bad or valuable, that opinion is, but you have to have some sort of a legal opinion on every class of bond you handle. The question resolves itself down simply to this: In some communities it frequently happens that a local

dealer will approach the official of the community and say to him, "We will buy your bonds without any legal opinion. We know they are all right and we know there is nothing the matter with them." Then along comes the bid of some house which does business all over the country, and their bid is the highest for the bonds, subject to the legality being approved by counsel. The local dealer immediately sets up a howl that such bid is conditional and the very local dealer who may yell the loudest against a legality clause at one bond sale will be most vigorous in his virtue in protecting it at the very next sale.

Now, I think it is a very good idea to stop that sort of thing. My proposition does not mean in the least that one must use a legality clause adopted by this Association. You are at liberty to use any legality clause you please. Any member of this Association at any time will always have the privilege of having a bond issue examined in advance, if he wants to go to that expense, but we all know, and we all know absolutely, that no bond issue can be examined in advance. Whenever there is a mistake made in the issuance of a municipal bond you will find that in an overwhelming percentage of cases it does not occur before the sale, but either during or subsequent to the sale. As one of the gentlemen has very aptly remarked, the proceedings leading up to a municipal bond issue are very readily checked up, and as Mr. Cushman has said, it is very easy to rectify such errors by court decisions. Such broad or large questions as the delivery of a bond or the proper sale or the validity of the sale can only be passed upon by competent legal advice after the transaction has occurred, and I do not want to take up the time of the convention. In my own experience I once had a most remarkable instance of this kind. It is short, and if you do not mind I will narrate it. I once purchased a block of Jacksonville, Florida, 5s; there were \$400,000 bonds in the issue; the bonds were approved in advance by reputable counsel—they were approved by Dillon and Hubbard. They were delivered to my firm, and its associates in the City of Baltimore. They were paid for and to our astonishment we found out a few days afterwards that they had not been properly signed. We had to send the bonds back to the City of Jacksonville; redeliver them to the city, be reimbursed by the city, and then go through the same process

over again; it was not only a very trying but a very expensive experience and I merely relate it to you as an incident.

The only reason why this clause is suggested is as a matter of ethics, to do away with the evil "small" municipal bond buying — I was going to say "trick" but I do not like to use the word.

I therefore suggest a resolution, Mr. Chairman, but I have not drawn this resolution very carefully:

"That if the Board of Governors deems it expedient that the attorney for the Association shall be requested to draft a standard legality clause for use in bidding for municipal bonds in open sale, and that the good faith of such a legality clause shall not be called into question by any member of this Association, under the penalty of condemnation in such manner as the Board of Governors may see fit."

The President: Is the resolution seconded?

Mr. Baker: It was hardly the idea of your Committee to take a vote on this question. If you want the vote, it is all right. But we wanted the discussion to be educational and to indicate what the members thought about the idea, whether it was worth while for the Committee to consider it any further.

Speaking for the Committee, we do not insist that the vote be taken; in fact, I think we would prefer that it would not be taken. Of course that is up to you. We wanted you to discuss it and let us see how you feel about the advisability and the wisdom of adopting such a clause.

The President: Do I hear a seconder to the motion? I do not hear a seconder. (The motion was not seconded.)

Mr. Baker: The third topic which your Committee has suggested is one on which we think you all agree, as to what effect the new Federal Income Tax will have, though we may differ as to the degree of the effect, so we are going to eliminate that in the discussion, and Mr. William R. Compton has very kindly agreed to discuss for a short while the Postal Savings System as it affects United States Municipal Bonds. (Applause.)

THE POSTAL SAVINGS SYSTEM AS IT AFFECTS UNITED STATES MUNICIPAL SECURITIES

WILLIAM R. COMPTON
William R. Compton Company, St. Louis

You no doubt are so familiar with the market influence on municipal bonds which has been created through the inauguration of our national Postal Savings System and the Federal Income Tax, that nothing more than passing remarks on these subjects will be necessary. Always recognized as a desirable form of investment, their popularity has been greatly augmented through these two recent Federal laws.

Prior to the adoption of the Postal Savings Act, we called particular attention to certain municipal bonds as legal investments for eastern savings banks, thereby advertising their attractiveness. We now add to these terms the phrase "legal for postal savings purposes," which designation serves to increase the market worth and general popularity of any municipal issue.

The Comptroller of Currency published in his report as of June 30, 1914, a statement showing total deposits of about \$43,000,000. His report as of June 30, 1915, showed an increase of 50 per cent for the year, with total deposits of about \$66,000,000. I have not before me the figures for June 30, 1916, but as of December 30, 1916, the total deposits were approximately \$95,000,000.

The original Act provided that deposits, not in excess of \$100 per month, could be made by individuals. The limit to any one individual was \$500. This Act was changed in the spring of this year and the new regulations permit of deposits not in excess of \$1,000 by an individual. These regulations have now been in effect for some three months, and in the months of June, July, August and September of this year the increase averaged \$4,700,000 per month, with September (the high water mark) well over \$5,000,000. These deposits are secured largely by Government, Insular, Municipal and School bonds, a total of \$125,000,000 having been deposited with the Trustees as collateral by some 8,400 depository banks.

To give you some idea of the growth in deposits, there are now ten cities in the United States which have postal savings deposits well over the million dollar mark — New York leading with \$20,600,000; Brooklyn second, with well over the six million dollar mark, and Chicago third, with over \$4,000,000. There are also eighty other cities having deposits ranging from \$100,000 to under \$1,000,000.

There are 5,600 different offices where postal savings deposits can be made in the United States, Alaska and insular possessions.

When the Act was first put on our statute books, no doubt many bankers had serious misgivings as to the effect on the amount of their deposits. This is particularly the case with the officials of savings banks and commercial institutions having savings deposits. Notwithstanding the remarkable increase in Government deposits, the effect has not been appreciable on our banking system. Nearly all of our savings and commercial banks have been prosperous and their deposits have steadily increased. No doubt a very large percentage of this wealth was of the hidden variety — the stuff that is put away in the long stocking and which has never heretofore appeared in commercial life.

I should be remiss in this little address if I did not mention the Department of the Solicitor General, under the charge of Judge Lamar and his very able assistant, Mr. E. B. Hazard. The Department has done everything possible to aid banks and dealers in their efforts to render acceptable bonds offered for collateral purposes.

Banks qualifying as depositaries are required to deposit collateral immediately. They have frequently found in their strong boxes some old issue of school, city or county bonds which would be perfectly desirable collateral if accompanied by satisfactory legal opinion and other form statements required by the rulings of the Department. In such cases the Department has very kindly lent material assistance and offered suggestions as to how the necessary information might be secured.

The Department, moreover, seems to have been run with an absence of red tape and with the uniform idea of giving courteous treatment and assurance, in every possible way, of a quick decision as to the eligibility of any particular issue offered as security.

The rulings of the Department, as to the acceptability and value of different classes of municipal securities, necessarily change from time to time. At the present time, Government, Insular and State bonds are accepted at their market value, not over par; while obligations of cities, counties and districts containing over 30,000 population are acceptable at 90 per cent. Obligations of communities having populations ranging from 20,000 to 30,000 are acceptable at 80 per cent and those of lesser communities at 75 per cent of the market value.

It is natural, therefore, that an unusually strong demand has been created on bonds of the higher class, such as Government, State and obligations of larger cities, for the reason that they are peculiarly adapted for postal savings purposes. This also advertises to the investor a broader market for these securities than was heretofore enjoyed.

It might be worth while to mention that the new Farm Loan Act provides some competition for municipal bonds. Under this Act a depository bank can offer for collateral purposes farm mortgage securities to an amount equal to 30 per cent of its total deposits. I do not think, however, that this will have any appreciable effect on the marketing of municipal bonds for postal savings purposes. The probabilities are that deposits will increase to such a considerable extent in the future that our market for municipal securities will benefit correspondingly.

I trust that in my rambling talk I have, in a general way, given some information to our members which will be of benefit. (Applause.)

Mr. Baker: Gentlemen, the time which was allotted to the Municipal Bond Committee, is about expired and unless there is some point of particular importance which you want to bring up now, bearing on the Municipal Securities Committee's Report, we will close the discussion.

The President: Gentlemen, we would like to have as many remain as possible for the next order of business. Before luncheon, we want the Railroad Bond Committee to present its report, or at least a part of it. There has been some criticism that the delegates have not had sufficient opportunity to look into these questions, and study them, so that they were not able to take an intelligent part in the debate.

Of course, most of you know that the summaries of all these reports have been published in the bulletins. A summary of the railroad report has been published in the Bulletin, but I think you would all be interested in hearing the report, before adjourning for recess for luncheon, so that you can come back after luncheon prepared to take up the subjects that are presented and discuss them with greater interest.

We also want to remind you that the first order of business this afternoon will be an address by Mr. Walker D. Hines, the Chairman of the Executive Committee of the Atchison, Topeka & Santa Fe Railroad, who is coming here at a very busy time to talk to us on the railroad problem, and I want very much to have a rousing good audience for him at the session which starts at two o'clock.

His address will be made as shortly after as convenient. I will now ask Mr. Blunt to present the Report of the Railroad Securities Committee.



GEORGE W. KENDRICK, III
E. W. Clark & Co., Philadelphia



LAWRENCE CHAMBERLAIN
Hemphill, White & Chamberlain,
New York



DANIEL K. DRAKE
Perrin, Drake & Riley, Inc.
Los Angeles



JOHN W. HALLOWELL
Stone & Webster, Boston

REPORT OF RAILROAD SECURITIES COMMITTEE

The results that can be accomplished by a widely scattered committee in a year of great business activity are extremely limited, but as far as time has permitted, we have endeavored to carry on the work inaugurated by our predecessors and hope that a few steps have been made in the line of progress.

Early in the year inquiries were sent to our members to ascertain the extent of their interest in railroad bonds and the attitude of investors toward these securities. From replies received we draw the following conclusions:

1st. Only between 25 per cent and 30 per cent of our membership is actively interested in railroad bonds, and 75 per cent of these are located in Eastern cities.

2d. There has been a comparatively large decrease, and this holds good even in the East, in the proportion of railroad bonds handled by our members, and the attitude of investors is much less favorable to railroad bonds than it was five years ago.

There can be no doubt in the mind of any of us that the raising of capital for railroad purposes is growing more difficult each year, and the railroad problem is probably the most important internal question before the American people today. In its solution, members of the Investment Bankers Association have a vital interest. Our position as intermediaries between the railroads and the investors should be one of great influence and our duty, as I see it, is three-fold:

1st. We must endeavor to turn public sentiment from its attitude of antagonism to one of fair play to the railroads.

2d. We must use our efforts to prevent that kind of financial mismanagement which has resulted in disaster to some of our best systems and which today more than any other one thing prevents the recognition of the just needs of the railroads.

3d. Above all we must insist on the proper protection of the capital invested in the railroads and surround railroad mortgages with such safeguards that they may hold their place among our prime investments.

Before proceeding with our specific recommendations, I will take a few moments of your time to present some figures which will bear repeating even though they are well known to you. The following table gives the amount of railroad stock and bonds in the hands of the public in the years 1904 and 1914, and shows the large relative increase in the bondholders' investment during that period:

	1914	1904	Increase
Stock	\$6,011,404,923 . . . 38.2%	\$4,397,040,970 . . . 45.9%	\$1,614,363,953
Bonds	9,708,292,002 . . . 61.8%	5,188,426,741 . . . 54.1%	4,519,865,261
	\$15,719,696,925	\$9,585,467,711	\$6,134,229,214

It is with the bondholders that this Association is most concerned. Their investment is nearly \$10,000,000,000, and aside from the amount held abroad, is distributed among private investors, savings banks, insurance companies and other

institutions. There are said to be 11,000,000 savings depositors and 30,000,000 policy-holders, so that a large portion of our population has a direct interest in this question. This investment has been made without the idea of profit, at a rate of interest averaging not more than $4\frac{1}{2}$ per cent, merely to secure a moderate income and safety of principal, but even here there have been large losses entirely out of proportion to the rate of return. No material claims of watered stock can be applied to this class of investment. Can anyone deny its right to complete protection?

Our subject is so broad and its angles so numerous that it is impossible for your Committee to do more than cover what seem to be some of the most important points, and we are offering for your consideration the following recommendations:

1st. That railroad bonds be issued providing for three classes of bonds under one mortgage, covering both road and equipment.

(a) Sinking Fund Bonds running say 50 years, redeemable at a moderate premium with a cumulative sinking fund of about $\frac{1}{2}$ of 1 per cent per annum, sufficient to retire both principal and interest at maturity.

(b) Convertible Bonds without the sinking fund provision on the theory that investors desiring the convertible feature shall forego the sinking fund privileges. The conversion of these bonds into stock from time to time should increase the equity behind the remaining bonds.

(c) Equipment Bonds payable serially from 1 to 20 years, the present method of issuing serial bonds, payable in 1 to 10 years secured on equipment alone to be discontinued as rapidly as practicable.

2d. Provision on the part of railroads for adequate charges on account of depreciation of equipment.

3d. Federal incorporation of railroads and approval of issues of railroad securities by some Federal Commission.

4th. Changes in the form of railroad reports. (This subject will be discussed in detail by Mr. Morris of Kean, Taylor & Co., New York.)

These subjects will come up for discussion this afternoon, but I will touch briefly on some of them this morning.

From our standpoint, there seems to be no room for argument as to the desirability of Federal Incorporation. The railroads will be relieved of an immense burden in having one master instead of forty-nine, and the Federal supervision of securities should prevent a repetition of the financial scandals of the past. On these questions the railroad executives and your Committee are in entire accord.

The sinking fund recommendation is identical with that suggested by last year's committee, and it is on this point that your Committee has spent its greatest efforts. The attitude of the Association is shown by the responses received from its members to the following question: "Do you believe that a reasonable sinking fund would materially broaden the market for railroad bonds?" There were 197 affirmative and only 11 negative replies.

Members of your Committee have interviewed prominent financiers, railroad presidents, and members of the Interstate Commerce Commission. While there is considerable opposition from all of these sources, several of the presidents of the largest systems have expressed themselves favorably on the subject, and I believe some progress has been made. Although none of the larger railroad mortgages issued during the year contains any sinking fund provision, there are several of

moderate size that provide for substantial sinking funds, including one issued by an important Western system, which provides for the payment of the entire principal within 40 years. It so happened that one of the members of this Committee and your Chairman were concerned in the negotiations for this issue, and we were much gratified at the attitude of the company in question in adopting practically every important suggestion that we made.

I am always surprised that so little attention is paid to the undesirable features of long time bonds. The fact that a bond is readily salable on the New York Stock Exchange to-day does not mean that this condition will continue indefinitely. Bank officials and trustees of insurance companies invest their funds in bonds running 100 years with apparent disregard of the question of time as a factor of safety and the difficulty of protecting the security over so long a period, and the savings bank laws of New York are so drawn as to encourage this long time financing.

The holder of a real estate mortgage has an immense advantage in being able to review his security once in 5 years, and may either demand payment or adjust the interest to market conditions.

It does not seem practicable, however, to finance our railroads by means of short time obligations, and we must, therefore, endeavor to minimize the dangers that surround long time bonds. I believe that the only permanent interest in any property should be that of the stockholder, and that 50 years suggested by this Committee should be the limit on any bond issues. This permits of amortization by the small payment of one-half of one per cent per annum, which to some extent will offset the depreciation that is constantly accruing and is not always taken care of in the maintenance account. It will also prove a wonderful help in promoting the stability of bond prices, which I think is desirable from the standpoints of both debtor and creditor.

Is not the bondholder who has parted with his money for a long term of years entitled to something more than the mere payment of his small annual coupon? Should not his investment be kept as near par as possible, and how can this be better accomplished than by the sinking fund? On the other hand, the railroads will, in the long run, benefit by increased credit and greater desirability of railroad bonds, although I do not mean by this that there will be a return to the extremely low rates that prevailed 10 or 15 years ago.

I cannot be too emphatic in urging every member of this Association to use his influence to secure the incorporation of sinking fund provisions in bonds of all kinds, bearing in mind, however, so to distribute the payments as not to make it a burden on the corporation. There are a great many evidences of improperly drawn sinking funds where the burden is unevenly distributed.

The questions of serial equipment bonds and depreciation of equipment naturally go together. We find that the practice of charging depreciation on equipment varies with the different roads, running all the way from $1\frac{1}{2}$ per cent to 6 per cent. It would seem that somewhere between 4 per cent and 5 per cent is approximately correct, and that 4 per cent should be the minimum. Bonds issued for equipment under a general mortgage should be retired within 20 or 25 years. I believe that the present method of issuing 1 to 10 year equipment bonds is a severe burden on many roads, a contributing cause to receiverships and a decided menace to the holders of long time bonds.

Previous to the general discussion we shall have an address by Mr. Walker D. Hines, Chairman of the Executive Committee of the Santa Fe.

In closing I wish to thank the members of the Committee for their active co-operation.

Respectfully submitted,

JOHN E. BLUNT, JR., *Chairman.*

(Applause.)

Mr. Blunt (Continuing): The subject of Equipment Bonds is one on which there may be different views and there is large opportunity for discussion. But something should be done to secure an adequate charge-off on account of depreciation of equipment bonds running from fifty to one hundred years.

I wish to thank the members of this Committee for their hearty co-operation. (Applause.)

The President: There is no subject upon which this Association has spent a greater amount of time than this railroad question.

I want to urge every member here now to be present at our final session this afternoon, the chief part of which will be given over to the discussion of the subjects indicated in our program. It will not be a long session, and I would ask you to postpone social engagements until after the conclusion of the session at 4 o'clock. In addition to the discussion, we will have an address by Mr. Walker D. Hines, which I know will prove interesting to all who hear it.

We will now take a recess until 1:45.

WEDNESDAY AFTERNOON SESSION

October 4, 1916

The President: I will ask Mr. Morris, the Vice-chairman of the Railroad Bond Committee to present his report, dealing with the proposed changes in the form of annual reports of railroads. I call on Mr. Morris. (Applause.)

STANDARD RAILROAD REPORTS

RICHARD L. MORRIS
Kean, Taylor & Co., New York

The Chairman of our Committee, Mr. Blunt, has asked me to tell you something about what we are trying to do in connection with the reports of railroads.

What we are working for is a standard form of railroad report, giving as full information as possible regarding the condition of the property to facilitate comparisons between the securities of different roads, and to enable the investment banker to form an opinion on the condition and management of each property, based on reliable statistics for the protection of the investor.

Your Committee in this work has consulted with prominent banking houses, with the officials of some of the large insurance companies and railroads, and with expert accountants, and hopes that they can get the railroad officials to agree upon a standard form of report.

There has been a great improvement in the reports of railroads in recent years, and we believe there is no desire on the part of the railroads to conceal any information to which the investor is entitled. Some of these reports to-day cover most of the information that we are after, but each railroad has, more or less, its own form of presenting it to the stockholders.

We believe that if all the roads adopted a uniform stockholders' report and gave in this report the facts covering their financial affairs which are at present contained in their report to the Interstate Commerce Commission, which was prepared in cooperation with what is known as the Railroads' Accountants' Committee, it would simplify matters very materially.

If this were done we would obtain a uniform and detailed Income Account, Balance Sheet, full details of Non-negotiable Debt to Affiliated Companies and Rentals Accrued, further information in regard to Commodity Statistics, statements explaining the method of depreciating equipment and giving rates charged, also full details regarding Sinking Funds. All of these points are at present very satisfactorily covered in the railroads' report to the Interstate Commerce Commission, but there are certain other points which are not covered at all, or only partially, which we think ought to be.

A short description of the various bond issues, showing exactly how they are secured, as given in the reports of the Rock Island, Norfolk & Western, Chicago & Eastern Illinois, St. Louis & San Francisco and other roads, is particularly desirable. In addition to this information we recommend that further particulars be given in reference to each separate issue of equipment trusts. The statement of securities owned should give rates of interest and due dates, and Loans and Bills Receivable and Miscellaneous Accounts Receivable should show separately how each item is secured.

Complete earnings, expenses, balance sheets, etc., of controlled companies and leased lines should be given. Statements showing in detail Joint Facility Rents, the average amounts charged to Operating Expenses for repairs, retirements and depreciation for each locomotive, passenger car and freight car, and statement showing amount expended for maintenance of way and structure per average mile of road and of track operated and maintained, are all desirable features.

We would like to obtain the gross or net tonnage or gross revenue according to divisions covered by various bond issues. This, unfortunately, may entail considerable extra labor on the part of the railroads, and we doubt if we will be successful in getting it. The roads, however, do keep records of gross revenue by operating divisions, and if they would publish these figures, it would be very helpful.

Another very desirable improvement would be to have the railroads show the depreciation reserve separately on the assets side of the Balance Sheet, and indicate just what it consists of, the same as is done with Sinking Funds. An improvement in the matter of depreciation of equipment is being taken care of in

some of the new mortgages, notably the Baltimore & Ohio, the St. Louis & San Francisco and Pere Marquette, where it is provided that equipment coming under the lien of the mortgage shall always be maintained in proper condition and that depreciation thereof shall be fully provided for without the issue of additional bonds under such mortgage, in such manner that the value and aggregate capacity of said equipment at all times shall not be less than the maximum value and aggregate capacity of said equipment at any time under such mortgage.

Another suggestion that has been made is, that the Depreciation Reserve shall be kept in cash or invested in additional equipment.

We believe that if we can satisfy the railroads of the reasonableness of our requests, we can have all of these suggestions incorporated in their reports, as it causes practically no additional work on their part. A very encouraging sign is that the roads seem to be gradually making their reports more and more in conformity with the figures they supply to the Interstate Commerce Commission, and we propose that if this convention approves the suggestions made by your Committee, that a copy of this report be sent to the Interstate Commerce Commission, the Railroads' Accountants' Committee and the accounting officer of every railroad of any importance in this country. (Applause.)

The President: There are no particular topics suggested in this part of the Railroad Committee's report unless there is some member here who has thought of some additional information that ought to be embodied in the annual reports, other than those pieces of information that have been suggested by the Committee. The Committee, I know, would be glad of the suggestions, either now or when you have time to think it over a little more thoroughly after reading this report.

I might say that most of our committees are too modest. They do not tell about the many days and nights of hard work that have gone into the making up of one of these reports. I have attended a good many sessions of the Railroad Bond Committee, and I know that the short report that Mr. Morris has just presented covers many, many years of hard work, and I am convinced that the benefits to be derived from that work will be of tremendous advantage, not only to this Association and to the dealers but to the investors at large.

If no action is taken on the subject, the question of carrying out these ideas in committee will be left with the Committee, as we understand, unless other action is taken, that this course has the approval of the Convention.

Mr. Morris: I would like to say here that if anybody is really interested enough to go into this further, that I had to make my report very brief because if we went into all the details of this report it would take a long time. I would like very much if any of the gentlemen here would like to go into it any further to have them call on me for any information or come into my office and see me about it.

The President: Mr. Morris has worked this out in exact detail. I know, because I have been over it with him and seen it. It is a very interesting study. We do not want a resolution specifically approving that work, because it is taken for granted that it is the kind of work that we want. Mr. Blunt this morning wanted to defer the discussion on the topics.

Gentlemen, we are very fortunate in having secured for the discussion of the railroad problem one of the railroad men who has been making a special study of the relationship of governments, both state and federal, to the railroad business, and can speak with great authority on that subject.

I take a great pleasure in introducing Mr. Walker D. Hines, Chairman of the Executive Committee of the Atchison, Topeka & Santa Fe Railroad. (Applause.) He will talk to us on the subject of "The Needs and the Opportunities of the Railroad Situation."

THE NEEDS AND THE OPPORTUNITIES OF THE RAILROAD SITUATION

WALKER D. HINES

Chairman and General Counsel of the Atchison, Topeka and Santa Fe Railway Company

The railroad companies and the members of your Association have a common interest that railroad securities shall be sound and shall give continued satisfaction to their purchasers. Hence, I wish to express my views as to some of the changes which are needed in our laws so as to promote the raising of necessary railroad capital through the issue of securities which will prove sound and satisfactory.

There is now an unusual opportunity to obtain important improvements in the laws which underlie the soundness of railroad securities. So I am going to speak, not of mere abstractions, but of matters which have become severely practical. The public is giving these things unusual attention and I believe Congress will soon find it appropriate to take decisive action upon them. Therefore I want to ask you to consider certain subjects about which you can give definite assistance, not at some time in the remote future but in the next few weeks.

Public sentiment is unusually alive to these matters because the difficulties of the railroad situation have been accumulating to the point where the country has begun to appreciate with clearness that the public interest will be injured unless those difficulties are removed. The members of your Association are in an exceptionally good position to perceive the remedies that are necessary and to throw your influence and the influence of your customers in favor of solutions which will promote both public interest and your own.

The difficulty which is uppermost in the Nation's thought to-day is the defenceless position which the railroad companies and the people themselves occupy with reference to organized railroad labor. Let me mention some of the steps which have led up to this defenceless condition.

In June, 1913, the Sundry Civil Appropriation Bill made an appropriation for the enforcement of the Anti-Trust Law which prohibited restraints of trade but provided that no part of the appropriation should be used to prosecute labor unions. This

was a striking illustration of the power of the labor unions over Congress, and was an invitation to the labor unions to go as far as they liked.

In July, 1914, the locomotive engineers in the territory west of Chicago and the Mississippi River made demands for increased wages and more favorable working conditions. The railroad companies made counter demands for the modification of various working conditions which they regarded as unreasonably favorable to the engineers. The railroad companies offered to submit both sets of demands to arbitration under an act of Congress which had been passed the year before with the approval of the railroad brotherhoods. The engineers refused to arbitrate the demands made by the railroad companies and said they would strike unless the arbitration was confined to their own demands. President Wilson intervened and urged the railroad companies to avert a strike by confining the arbitration to the points which the engineers were willing to arbitrate. The railroad companies, out of deference to the President, yielded to this unreasonable position. Here the country was face to face with a railroad strike which threatened to tie up transportation throughout the West; the arbitrary position of the railroad brotherhood was clearly disclosed and the support which that position received paved the way for still more arbitrary action in the future.

But despite this impressive warning as to the arbitrary methods of the Brotherhoods and as to the resulting public menace, Congress took no action to protect the public. On the contrary, about two months later legislation was adopted which seemed designed to remove the lid entirely and to give railroad unions and other unions still more power and to make the Nation still more defenceless. This legislation was the Clayton Act which was approved by the President on October 15, 1914. Sections 6 and 20 of that Act were inserted by way of compliance with the demands of the labor unions. Section 6 may be construed to provide that the existence and operation of labor unions and the action of their individual members shall not be deemed restraints of trade under the Anti-Trust Act. Section 20 may be construed to provide that strikes shall be regarded as lawful no matter how unreasonable their purpose or their method. The prevailing opinion seems to be that these sections deprive the Government of any

means whatever to prevent conspiracy to restrain commerce through a railroad strike, no matter how widespread the strike or how unreasonable the motive which actuates the strike.

These were the things which were done in 1913 and 1914 which emphasized and increased the power of the railroad labor unions and encouraged them to their climax of arrogance which came last August and which is too fresh in the minds of all of you to justify discussion.

Under the law as it seems to be construed by the Government, the country has no voice whatever in preventing or postponing a railroad strike no matter how widespread it may be or how arbitrary the leaders of railroad labor may be. The result is that until there shall be some general remedial legislation, the railroads are left in a position which is full of danger to the public and full of discouragement to prospective investors whose capital ought in the public interest to be used in the further development and improvement of the railroads. Since the Government is unable to get the railroad unions to do anything they do not want to do, the whole pressure of the Government is exerted to get the railroads to concede whatever the unions insist upon. When executive pressure fails, then Congress seeks to grant by hurried legislation what the labor unions demand. If such legislation proves constitutional the railroads must try to shift the burden to the public and to do this must get the approval of the Interstate Commerce Commission and to some extent of state railroad commissions.

The continuance of such a condition is a menace to the soundness of present and future railroad securities, because if railroad revenue is thus put at the mercy of the railroad unions no one can have confidence in the ability of the railroad companies to continue to earn sufficient net income to pay interest, rentals and dividends and to provide the annual surplus necessary to protect railroad credit.

Of course there will be and must be consideration of this matter by Congress until some method can be found for the settlement of these controversies in a legal and orderly way in accordance with the rights of all parties concerned. But I wish particularly to emphasize that no such law can be passed except over the opposition of the railroad brotherhoods; for they have declared in the most unqualified manner that they will oppose any law which

seeks to provide for an official investigation of the merits of a dispute before a strike can take place, and will oppose any other law through which the Government would interfere in any way with the unrestricted freedom of railroad labor to strike whenever it sees fit. When you consider the past record of Governmental compliance with the wishes of union labor, you will realize that it is not going to be an easy thing to get the necessary remedial legislation when that will be violently opposed by union labor. We must expect the labor unions to use in the future all the political power they can command just as they have done in the past.

Hence your influence and the influence of your customers should be employed to aid in bringing to bear the sentiment of the public generally in favor of a solution which will relieve the public from its present defencelessness and which will give railroad investments the protection of orderly decisions of these matters on their merits.

The time appears almost ripe for Congressional action on other matters of vital importance to the soundness of railroad securities.

I do not need to take up your time in pointing out how the foundations of sound railroad securities have been slowly undermined by the accumulating and conflicting regulations of forty-eight States in addition to the regulations of the Federal Government. Railroad securities are not issued in fragments according to State boundaries but are issued as a whole. They depend for their soundness upon the railroad company's present and prospective net income as a whole. Yet that single and indivisible net income is being eaten away by State action,—miscellaneous, disjointed, independent and inordinated—through reductions in rates and increases in expenses. The horizon of each State is circumscribed by its own boundaries and it acts with reference to its own local interests, although nearly all of its railroad regulations have a direct and injurious effect upon the general welfare of each railroad company affected. The general welfare of each railroad in this country is a matter of national concern, and yet it is affected in countless ways by State authorities who do not and can not look at the matter from a national standpoint. The dangerous consequences of having a single matter which is pri-

marily of national concern regulated and impaired by forty-eight different States, no one of which has a national horizon or responsibility, are now generally appreciated. But your help is needed in emphasizing still further the necessity for adequate national action to supersede this destructive patchwork of reductions in rates and increases in costs.

Another point, with which likewise you are thoroughly familiar, is the necessity for uniform and national control over the power to issue and the manner of issuing railroad securities, both stock and bonds.

Under the present State laws, the prevailing idea is that a railroad company cannot issue mortgage bonds without obtaining the authority of each State in which any part of the mortgaged railroad lies. The authorities of each State necessarily deal with the matter according to local conceptions and without any controlling sense of responsibility for the interest of the nation as a whole. The delays and uncertainties and at times the conflicts incident to these conditions are serious and will become greater as additional States assume the power to control these matters. When we come to stock issues we find that each railroad company is controlled by the law of the State in which it is incorporated. One railroad company may have full power to issue additional stock, both preferred and common. Another may have exhausted its authorized capital and may be without any statutory means of increasing that authority. Another may have no power to issue preferred stock. Another may have no power to issue preferred stock without the unanimous consent of the stockholders. One company may be able to sell its stock at a reasonable market price even though below par, although generally speaking stock cannot be sold below par. Then we have the further complication that frequently a railroad company is incorporated in three or four States, and therefore as to its stock issues is restricted by the laws of each State, and here at times we find absolute deadlocks. One of the incorporating States may require that new stock shall be offered *pro rata* to existing stockholders and another of the incorporating States may require that stock shall be offered *pro rata* to existing stockholders and existing convertible bondholders. To add to these difficulties signs are appearing that Railroad Commissions of States which have not incorporated a railroad

company are going to insist on regulating its stock issues when its road is partly in those States.

Still another difficulty in this respect from the standpoint of your interests is, that as to some States the law relative to issues of railroad stock and bonds may be exceedingly slight and securities may be issued without adequate safeguard of the interests of investors or of the general public interest. Instances of this sort serve to embarrass the whole situation and to make your customers fearful as to the stability of all railroad securities.

The only solution of these difficulties seems to be Congressional action which will substitute Federal authority and Federal supervision for the present bewildering maze of State authorities and State contradictions. Here your influence will be particularly strong in developing the public sentiment in support of the necessary unified Federal authority and supervision.

There is another matter of vast importance which has been frequently touched upon in your annual meetings and with which your members are familiar. That is the proposition that the fundamental soundness of railroad bonds must depend upon the railroad company doing a large part of its financing through the issue of additional capital stock. Bonds to be sound and attractive must be protected by a wide margin of safety. If seventy-five per cent of a railroad company's normal annual net income must be used to pay bond interest, it is obvious that a loss of twenty-five per cent of net income in any year through business depression or exceptional disaster will bring the company to the brink of insolvency. But if only forty per cent of the railroad company's normal annual net income is required for bond interest, it would take a reduction of sixty per cent in that normal net income to bring its solvency in question. This margin of safety, or the annual surplus of net income over and above fixed charges, is the fundamental element of security and attractiveness in railroad bonds.

We all know that railroad companies must continue to spend hundreds of millions of dollars for the further improvement and enlargement of their properties. This money must be raised either by the sale of bonds or by the sale of stock. To the extent that this money can be raised by the sale of stock, the margin of safety will be increased, because stock entails no obligation for fixed

charges. But to the extent that these hundreds of millions must be raised by the sale of bonds, the margin of safety will be impaired, because every time a bond is sold there is an increase in the company's fixed charges.

All you gentlemen know that in recent years conditions have been such that hardly any of the railroad companies in this country could raise new money by the sale of stock. This has been true because with very few exceptions railroad stocks have been sold below par and generally speaking no new stock can be sold except at or above par. Even in cases where railroad stocks have been selling above par the excess over par has been so slight that the offering of a large block of forty or fifty million dollars of new stock would have depressed the price below par. Under such conditions the railroad companies almost without exception have been forced to raise all the money they needed through the sale of bonds. In other words, the railroad industry has had to do nearly all its new business on borrowed money. This has meant the increasing of their fixed charges and consequently the diminishing of their margin of safety.

Every time this margin of safety is reduced through the disproportionate increase of new fixed charges, a blow is struck at the attractiveness of that company's bonds, both those now outstanding and those to be issued in the future.

The vital condition for the successful continuance of railroad companies under private ownership is that there shall be a reasonable prospect of earning net income sufficient to make the stock of those companies attractive investments to stockholders. You gentlemen know that in order for a six per cent stock to be an attractive investment, it is necessary year in and year out for the net earnings applicable to dividends to be eight or nine per cent upon that stock, because the amounts needed to take care of obsolescence and of the creation of new facilities which do not produce revenue are such that it is out of the question for a railroad company to pay out in dividends all the net earnings which are theoretically applicable to dividends. This question cannot be solved on any theory that railroads can prosper by allowing them a return which is equivalent to ordinary bond interest, because no such return will ever be sufficient to support the issue of capital stock. No investor is willing to take the risk of investing

in capital stock if he is to get no larger return upon it than he could get by investing in well secured bonds.

The establishment of a national method of regulation which will be unified and consistent will be calculated to remove from the railroad situation the present fear that their net income will be regulated down to a basis so low that it will be out of the question for stockholders to look forward with confidence to a continuance of dividends sufficient to make the stock an attractive investment.

Here too you gentlemen are in a position of peculiar strength in developing public sentiment. While you and your customers are primarily interested in the sale of bonds, you and they are profoundly interested in there being an adequate basis to secure those bonds. You know, and you can make it clear to them, that that basis cannot exist unless railroad net income is sufficient to enable railroad companies to do a large part of their new financing through the issue of stock and unless the laws are so simplified and unified as to admit of the issue of stock under appropriate national supervision.

To recapitulate, the railroads need, and you need and the public needs first, legislation which will provide an orderly and responsible method of settling railroad labor disputes as a substitute for the terrorism of the strike; second, legislation whereby state regulations reducing net income through reductions of rates and increase of costs will be superseded by national regulation; and third, legislation whereby the power to issue stocks and bonds will be derived from the nation, and the method of their issue will be supervised by the nation. And all these things are needed to the end that railroads may raise their new capital largely through the sales of stock so as to give them a broad and sound financial basis which will make their stocks and bonds attractive investments and whereby the public will be assured of the continued development of the railroads.

In all of these things I invite your co-operation, and I do it with confidence because I believe in these respects your interest is identical with that of the railroad companies. Further than that, your interest in this matter is identical with the public interest. The public is interested in the railroad companies being able to raise sufficient additional capital to keep the railroad properties

abreast of the progressive demands of our rapidly developing business and civilization. That capital cannot be secured unless investors can be induced to furnish it and investors cannot be induced to furnish it unless attractive securities can be offered, and those securities cannot be attractive unless there is a reasonable prospect that the railroad net income shall not be indiscriminately impaired through fragmentary local legislation and through irresponsible exactions of organized labor.

In concluding, let me again emphasize the proposition that the things I have talked about are not matters merely of remote and theoretical interest, but are matters of immediate practical importance, because the time is ripe for dealing with these problems. A joint committee of Congress is to begin an inquiry in November into all the aspects of railroad regulations. Now is the time to aid in bringing home to the public a clear conception of the measures which are needed to promote its vital interests in railroad transportation, and that those interests will be promoted by doing the things which will make for the soundness of railroad securities.

The President: I am glad to announce that the full text of Mr. Hines' very able address will be found in to-day's issue of *The Economist*, copies of which can be had as you leave the Convention hall. (Applause.)

We now come to a discussion of the topics presented by the Railroad Securities Committee. Mr. Blunt, do you want to present these topics?

Mr. Blunt, (Merchants Loan & Trust Co., Chicago): I want to say that a year ago, when Mr. Franklin asked me to take the Chairmanship of the Railroad Bonds Committee, I felt a great deal of hesitation about accepting. We do very little railroad financing in Chicago. While some of the most important systems have their operating headquarters there, the financing is nearly all done in New York, and it seemed to me that this position should be taken by someone with headquarters in New York City. I wish I had had opportunity during the last year to have held more frequent consultations with the members of my Committee, many of whom are more familiar with this subject than I am.

Certain recommendations have been made as subjects for discussion. We would like to hear from all of you as to what you

think of them. Before reading these I would say that I am very glad Mr. Hines mentioned the subject of the issuing of stock as a protection for bond issues. This was one of the recommendations of last year's Committee, and it is something which every bondholder is in favor of and we most heartily advocate.

The suggestions which have been made, I will repeat as read this morning:

"(a) Sinking Fund Bonds running say 50 years, redeemable at a moderate premium with a cumulative sinking fund of about one-half of 1 per cent per annum, sufficient to retire both principal and interest at maturity.

"(b) Convertible Bonds without the sinking fund provision on the theory that investors desiring the convertible feature shall forego the sinking fund privilege. The conversion of these bonds into stock from time to time should increase the equity behind the remaining bonds.

"(c) Equipment Bonds payable serially from 1 to 20 years, the present method of issuing serial bonds payable in 1 to 10 years secured on equipment alone to be discontinued as rapidly as practicable."

In some of the recent reorganizations it has been shown there was a great deal of antagonism between the holders of equipment bonds and the holders of mortgage bonds, much to the disadvantage of the latter. I have in mind the case of the Chicago & Eastern Illinois with which I am familiar. There were some 55 million mortgage bonds and the holders of the equipment bonds were able to secure a lien on the road ahead of them with the threat that if it was not given to them they would take the equipment. That seemed to me a very unfair position. There were some old bonds bearing six per cent which were a mortgage on the three track line out of Chicago, and yet the equipment bonds secured a lien ahead of them, an increased rate of interest and commission. Too much attention was given to protecting the equipment bonds at the expense of the others. Our suggestion is that the equipment and the road be kept together and if equipment bonds were all retired within 20 years it would about use up the depreciation on equipment. One to 10 year bonds mature much faster than the depreciation on equipment.

Of course in the case of the strong roads it is different. If they want to take 10 years to pay for their equipment it is immaterial, but in the case of the smaller and weaker roads it is a heavy charge to meet, and maturities are frequently refunded into long time bonds.

I shall be very glad to hear from any of you on this subject.

The President: The question is before you for debate. We have not had an extensive debate on the proposition. It was up at the last convention and various times since, but these other recommendations are rather new, particularly the length of the equipment bonds.

Mr. Bodell (Bodell & Co., Providence): Do I understand the idea of the Committee is to make one mortgage, so that it can be issued in three ways,— a mortgage bond, a sinking fund and an equipment bond,— all covered by one trust deed?

Mr. Beebe (Harris, Forbes & Co., New York): I have not given very close attention to this railroad matter, and it may be that my question is unnecessary, but it occurs to me to ask in view of the fact that the chief objection to short time bonds and the rapid payment of that bond and what amounts to a chattel mortgage to it, applies chiefly to the new bonds, of a new road;— will it not attempt to lengthen that out and result in a gradual increase of the cost of equipment charges, on any particular batch of equipment bought by that road? Would not the very thing that you are aiming at now to protect, the long time mortgage bond, be objectionable from the standpoint of that new road? I have in mind one or two lines that were constructed under conditions, or under different operations than to-day, that would be very hard hit if they had not the right to go into the open market, to buy equipment and mortgage that and make whatever requirements were necessary, in order that the bankers could handle those bonds to the best advantage, and the cost would be a very much greater amount than was the case formerly.

Mr. Blunt: The point is very well taken and I think it would take some time to educate the public up to a change, but I think it is the right way to do it. I think that 10 per cent is a heavy charge—it has to be met in cash as you say. For the time being people will perhaps not look with favor on equipment bonds running one to twenty years, but they should realize that they are not to be secured on the equipment alone they are issued under the general mortgage and I would rather buy a bond running one to twenty years than a fifty-year bond. I think they would sell after people got used to them and have a ready market. A good many of our municipals run one to twenty years, and while the one to

ten-year equipment bond has been a pretty attractive one it has hurt other bonds. Under some of these decisions any equipment bond issued would practically come ahead of any mortgage, and it is with reference to protecting the other bonds that this suggestion was made. I realize the very difficulty that you speak of.

Mr. Beebe: That brings up another question that may be of interest, in view of our relations with the trust companies. Is it at all feasible appointing a trust company as trustee, and to impose such duties on that trust company as will insure the proper depreciation of that equipment, either through renewals or repairs, or otherwise?

It seems to me that might have a very important bearing on the willingness of the investment bankers to stand responsible for equipment bonds. However, if that equipment should go on, with regard to a small road, and the trustee was to act in case of trouble, it occurs to me that most of the investment bankers would not think it was at all practical to keep in touch with that equipment during its life; whereas, the trusteeship could embody the physical inspection of that equipment, and in merely a perfunctory report it might go a long ways toward solving the question.

Mr. Blunt: I think there has been in the past a laxity on the part of some of the trustees in following up such provisions, and that is one of the reasons for having these bonds mature serially instead of an agreement to keep the equipment at a certain figure. The trustee's responsibility is always limited by the trust deed, and they dislike to assume any liability. I think perhaps they are willing to assume some *responsibility*, but they absolve themselves from all *liability*; and I know in the case of St. Louis and San Francisco that one of the trust companies insisted on information in regard to certain equipment and were told that out of several companies that were trustees of equipment it was the only one that had insisted on it.

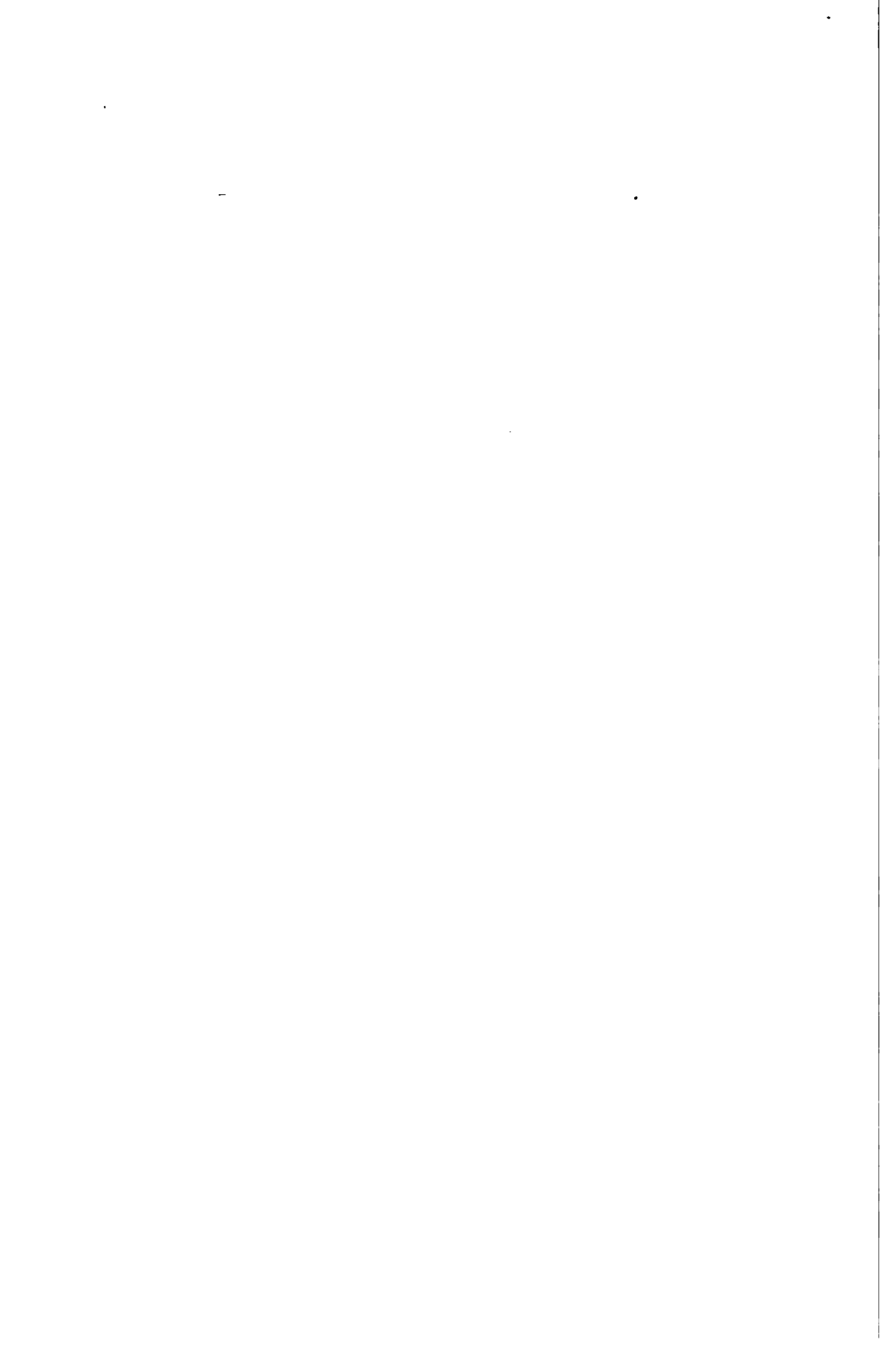
I think, however, there has been a great improvement in the last few years. I believe some of the New York people could tell you more about that than I can, but it is not the easiest thing in the world to get a trustee to perform the duties it ought to. They are not paid for it. They are paid fifty cents a bond for signing bonds, and there is a lot of competition for the business, and they



GEORGE B. CALDWELL
Ex-President and Governor
New York



LEWIS H. PARSONS
Graham & Co., Philadelphia



do not follow up those things as they ought to, because there is sometimes no way of doing it. You often have to spend a lot of money without any way of getting it back. There ought to be some way of enforcing these obligations, but it is somewhat difficult; I think though, that the trust companies will show a great improvement in that direction in the future.

The President: I might say that I think the investment banker has a bit of the sin on his own shoulders. It is the rarest thing in the world for a trustee to get a letter from an investment banker, who has put out an initial issue of bonds, asking anything about the condition of the equipment, and if the investment banker that puts out the issue would ask about that equipment and its condition he would not only get the information sooner or later but if the trustee was in any way delinquent in his duty the investment banker would soon find it out and be able to rectify the trouble.

I had occasion to take up with one of our rivals in the trustee field the condition of an equipment trust under their charge, in which we were interested as dealers in securities, and it took us over a year to get an adequate reply, but we got it. It was not their fault; they could not get it from the railroad company. The railroad company was in the hands of a receiver, but we finally got it, and got it in great detail, and I think it is the duty of the investment banker to watch the property which he issues bonds on, as well as the duty of the trustee. You can get information if you get after the trustee.

I might also be pardoned for saying,— I do not like to have the chairman inject himself into these discussions too much, but it might be a matter of interest, talking about these bonds maturing at various times, under the same mortgage, to know that there has recently been a railroad mortgage issued that not only matures at varying times but refunds itself.

It is something new. It is what I have called a "revolving mortgage." The plan is that all of the future financing of that railroad shall be done under that mortgage forever. The rate of interest is flexible, the maturity is flexible, and when bonds under that mortgage become due they can be refunded with other bonds under the same mortgage. Of course it is an open mortgage or at least a very large authorized issue.

Mr. Oldham (Merrill, Oldham & Co., Boston): I would like to ask the theory of that. I cannot see any sense in that, of refunding itself. How can you renew it again under the same mortgage?

The President: The theory of it, as I understand the situation, was that if you have one of those open mortgages, under which you can issue various series of bonds, what is the use of having a new mortgage every time one of these series becomes due? It is practically an extension, except that the holder of the bond gets his money, if he wants to.

Mr. Oldham: Sells the bonds in the market and gets his money?

The President: Yes, but he gets his money at par, instead of the market price.

Mr. Blunt: I do not think there would be any objection to refunding mortgages, if we could be sure that at the time of maturity there would be enough margin there, but it is difficult to anticipate conditions fifty or one hundred years hence.

The President: Is there any further discussion on this point of the flexible railroad mortgages?

Mr. Beebe: One phase of the situation seems to be overlooked in the discussion to-day; that is, the emphasis that has been placed on the financing of the equities of the stock. A railroad has nothing to sell but service, and it is to meet these maturing obligations while arising. The more you pile up obligations that are becoming due from large amounts constantly, the more you are taking away from the ability of the road to pay satisfactory dividends upon its stock. While there may be a great deal of objection to a 20-year equipment bond, it seems to me there ought not be any difference of opinion as to trying to keep a railroad in a position where they can pay satisfactory dividends for the protection of the bondholder, as well as a return to the stockholder.

As I understand this, even under the plan suggested there is no objection to even a ten-year bond instead of 20 years, under the same mortgage, if necessary, but I believe the 20-year bond would be more desirable from the point of view of building up the equity of the property, than a ten-year equipment bond.

A railroad has not any way of selling assets, under these obligations, and therefore, it must be a burden, and when it does

that, it takes away from the railroad the ability to pay a satisfactory dividend.

The President: Any further discussion? We will pass that subject then. We now come to the second question, the question of depreciation charges on railroad equipment.

Mr. Blunt: As I said this morning, there is a very substantial variation in the different roads, and it would make in the case of some roads a very material difference in their earnings. I believe the charge on the New York Central, according to figures I have, was two per cent. I have not figured out what difference it would make in the earnings, but it would be a very substantial amount. It seems to me, in order that these earnings should be as near correct as possible, there should be an adequate charge, and a great many larger systems do come very closely to it. The Burlington charges six per cent, and one of the officials of the railroad told me their experience was 5.58; the Atchison is between four and five per cent, if I recollect rightly, and it is only recently that the Interstate Commerce Commission has insisted on a charge being made. Prior to that time, some railroads like the Rock Island and the C. & E. I., charged a quarter of one per cent, indicating that the equipment would last four hundred years, and most of the roads, with one or two exceptions, are up to two per cent. Other roads are trying to figure it out scientifically. They have gone into the different classes and figured the estimated life and salvage, and are charging what they think a proper ratio. I think that this thing will come about, and believe we ought to advocate having an adequate charge averaging higher than it is at present.

Mr. Morris (Kean, Taylor & Co., New York): In connection with my work, I have had a very interesting conversation with the accounting officer of one of the railroads, who told me that recently the Interstate Commerce Commission sent out a list of questions to the roads. I believe they took no position as to depreciation charge — they did not say a certain charge is proper; but they sent out a list of questions, that have to be sworn to, asking each road how they based their charges, whether it was on actual experience, and also whether it was done through financial expediency, and whether they considered they were too high or too low, what it was based on; a number of questions along

that line. It seems to me it shows that the Interstate Commerce Commission, while they are not fixing the rate, are looking into the question of the rate of depreciation very carefully.

Mr. Blunt: I think they are doing this. I did not give this subject quite as much attention as I should have liked, but it was my understanding, and if I am not correct I wish somebody would correct me, that the Interstate Commerce Commission now requires equipment to be charged off by the time it is retired; that is, if they have not set up a sufficient reserve before retiring the equipment, they have to make up the deficiency out of earnings. We have a situation on a little road out of Chicago that had not sufficient depreciation reserve, and they wanted to scrap a lot of cars. There was such a difference between the value of those cars and what they were on the books, that they have not been able to pay any interest on their income bonds for a year. They had to take it out of earnings and charge it off. It would be better to adopt a uniform or adequate charge and distribute that as it ought to be.

Mr. Oldham: Mr. Blunt quoted figures 5.58 and six per cent on this equipment. I would like to inquire what the starting point is, whether it is the original cost of the equipment, or whether it is an appraisal at a given time, and if an appraisal at a given time, whether all the equipment was appraised at the same time?

Mr. Blunt: I do not know.

Mr. Leach (A. B. Leach & Co., New York): With regard to depreciations, particularly as to equipment, I find that a great many times we fool ourselves; in a great many cases it is a credit on the books. The equipment has been credited with one-quarter, or two, or five and three-eighths per cent, but it is still a credit on the books of the bankrupt company. It does not substantially interest the bondholders. I believe that this equipment trust should distinctly provide that there be a depreciation charge, but that depreciation charge should be either used for the purpose of new equipment, to replace that which has been destroyed, or become at least of less service, or that it should be put in a separate fund, not covered in the general treasury of the company. That is where the real difficulty is, and I find one further thing, Mr. Chairman, if you will read carefully the equipment trust agreement I think you will find one-half of the entire document is taken up by

clauses which relate to the trustee. The trustee's duties are provided, but the things they can not be called upon to do are emphasized and I think the trust companies are well warranted in saying, when we go to them and ask what shape this equipment is in, "we are not paid for that. Fifty cents a bond does not pay us for that." But in each equipment bond there should be a clause to set aside a fund, either through purchase of the bond or of equipment; second, the trustee should have an agreement with the issuing company to have this understanding four times a year or at least three times a year. Again, I think there should be a definite understanding as to when they will terminate; and, third, there should be a sum paid to the company every year for doing this service.

With those three things accomplished, I think it would make every equipment bond satisfactory and will promise less trouble.

Mr. Blunt: In regard to the first part of Mr. Leach's statement, that if these bonds matured in one to twenty years, the maturing bonds would take care of themselves. It is clear that under a long time mortgage the fund should be used in the purchase of new equipment, or kept in perfectly liquid form, and not merely as an entry on the books.

I also agree with him on the question of what he says on the subject of trust companies. But there are so many people who will do things as they please that it is a pretty difficult matter to bring trust companies to a realization of their duties under trust deeds.

Mr. Leach: Most of these equipment trusts are on the basis of the payment of so much each year. That was designed each year with the idea that in a certain period of years it would be all paid by them. My thought was that if there be 1,000 cars in any one equipment, and that at the end of six months or five years there were 100 cars actually destroyed, that at least that part of the equipment should be rebuilt by the company, rebuilt or replaced by the company, the payments being placed so as to take care of the entire issue.

Mr. Blunt: If 100 cars out of 1000 are destroyed, you still rest on the credit of the company to make it good. When they paid one-tenth each year they offset more than the depreciation.

Mr. Leach: In the first year 100 cars are destroyed, the other 900 are being depreciated just as much as before.

Mr. Blunt: Not as many as 100 can be destroyed. With your theory, when the bonds are paid off you would have the same value in security less depreciation. If they paid off ten per cent a year they pretty well take care of any depreciation that comes up. The cars must be handled pretty badly where 10 per cent annually will not afford sufficient protection.

Mr. Leach: This matter of setting up depreciation on the assets side carries with it the recommendation that it be kept in cash or security that would take care of that.

Mr. Levering (Baker, Watts & Co., Baltimore): I want to inquire if there could be any light thrown upon this question: As I remember, the equipment trust is operated by a given company, and the old equipment came under a general mortgage. Is that correct?

Mr. Blunt: Yes.

Mr. Levering: Now, is it not true that a large amount might be taken care of by that plan?

Mr. Blunt: That is a very hard thing to determine, whether it has run into maintenance or depreciation. I took four roads — the Northwestern, the Burlington, the Atchison and the St. Paul railroads, and they happened to have about the same number of freight cars, somewhere around 65,000, and the difference in depreciation was very marked in two roads, — St. Paul was lowest, Northwestern next, Atchison next and Burlington highest. I took that up with the St. Paul people and they claim they were charging much larger maintenance, so there is a chance to put more into one account than into another. It is a rather difficult matter to determine, I should think.

Mr. Wright (H. P. Wright Investment Co., Kansas City): Is it not true that railroads can settle between themselves on a definite basis and provide for depreciation for a year?

Mr. Blunt: They have an established rate or basis. I do not know what it is.

Mr. Wright: It is 5 per cent a year.

Mr. Blunt: I have talked with many railroad men and they will say 5 per cent is not very far out of the way.

Mr. Wright: Going back further, if 5 per cent is proper de-

preciation, and you are speaking of the hardships with one to ten-year bonds, it may not be a strong financial aid, but in fifteen or sixteen years the railroad is in the hands of a receiver and the holder of the security at that time will have little chance to get his money back. Again, the road is in the hands of a receiver and you will have complications for about sixteen years. Don't you think so?

Mr. Blunt: I do not get your point.

Mr. Wright: The equipment would depreciate so much in the sixteen years that it would be hard to get the trustee to take over the equipment?

Mr. Blunt: It would be just a part of the general mortgage. It has always seemed to me unfair that the holders of C. & E. I. general mortgage bonds, which had at one time sold at 125, sold down as low as 50 on account of equipment bonds being put ahead of them.

Mr. Wright: It is a question of whether you can get a general mortgage bondholder to accept the others. It would seriously interfere with sales.

Mr. Blunt: It might for the time being but I think it is the proper way to do it, and I believe in the end it would be much better. I would rather have a general mortgage bond that covered the equipment.

There are so many more mortgage bonds than equipment bonds. I think there is something like \$500,000,000 of equipment bonds out of a total of about ten billion dollars. That ratio would be 19 to 1, and I believe we must consider the greatest good to the greatest number. Instead of making your equipment bonds so attractive, you should make both issues attractive.

Mr. Martin (Estabrook & Co., Chicago): I believe it is a question of expenditures,—which was the cheapest way to do the financing. I never knew a road to put out an issue of equipment bonds unless they were forced to it. In almost every way I know of that was the cheapest way to finance the company. In hard times they get a higher price and can bank and sell it more readily, and only recently they have put a lien on this equipment as they had to do it to sell the stuff. If they could have sold them in any other way they would have done it. But they had to get the value.

I believe it has been the situation every time it has forced a company to issue equipment bonds. Certainly that was the case in the Chicago & Eastern Illinois and other cases, and many bankers say that is the reason a road sells equipment bonds,— because they were forced by market conditions to get a price, financially. I believe that is one of the difficulties of equipment bonds.

The President: If there is no further discussion we will pass to the next topic, the question of Federal Incorporation of Railroads.

Mr. Blunt: I think that has been discussed, both this morning and by Mr. Hines this afternoon. Still, if any one has anything to say on this subject we would be glad to hear it.

The President: If there is no discussion we will pass it.

Of course, it is understood that this Committee, or the successors of the Committee shortly to be appointed, will continue the work. That work will show progress from year to year, and unless at any time the Convention should order this kind of work in the education of the railroads, the education of the investor, on better lines; unless you should order it discontinued it will be continued so that you do not definitely have to settle anything in order to have the work proceed.

We have heard about this joint committee of the House and Senate, appointed for the purpose of studying the railroad problems, and I am going to suggest that we have a word on the subject of the railroads' opportunity.

I want to ask Mr. Sisson to tell us in about five or six minutes what the chances are for doing constructive work, and how the investment bankers can help it. Mr. Sisson, gentlemen. (Applause.)

Francis H. Sisson of the Railway Executives Advisory Council, New York: I feel, in saying anything more about the railway situation, a bit diffident, as it has been very thoroughly covered by earlier speakers.

Last Summer the Department of the Interior was making an investigation into the life of the Indians in the Southwest, and they discovered, much to their chagrin and shock, that the Indians were living in a polygamous state, and they served notice on the chief, whose name was Quana, that they must get rid of their surplus wives. Quana was told to take the matter in hand. Six months afterwards they had him back again in Washington and inquired into this matter and they told old Quana that he had been

negligent in that matter himself. He said, "Yes." They told him, "Quana, you have got to get rid of your surplus wives." Quana turned to the chairman, looked at him for a moment, and said, "You tell them." (Laughter.)

And so after I heard Mr. Franklin speak yesterday and the various reports of to-day, I feel that anything which I can say has been adequately told to you before.

I want to say at this point that I was somewhat disturbed to find in the report of the Committee that only about 25 per cent of you men were interested in railroad bonds, and the percentage of investors represented is about the same. But that is not the question. Every man in the banking business in the United States is vitally interested in the railroads, as the transportation situation underlies business success. It not only affects you as a fundamental business proposition, but it affects you as investors, dealing in these bonds. If we do not work out successfully the question of these railroads, we will be confronted with Governmental control of railroads very shortly, and as a citizen of the United States I view that with alarm, as I believe the policy of all such bonds will be very gravely affected by that sort of thing. So I feel it is a hard thing to address myself to this problem of efficient transportation.

The railroads are limited by regulation; they cannot raise their returns to meet sinking funds, because those earnings are limited by regulatory rules. Now, assume they have regulatory rates, the next thing is to make your regulation intelligent and efficient. The Newlands Investigation was suggested in the first place by President Wilson in a letter addressed publicly to Mr. Frank Trumbull, now Chairman of this Advisory Committee. It was suggested in a message of the President to Congress, and next by the President to the Chairman of the House Committee on Interstate Commerce, and finally was, at the last session of Congress, passed and the Committee was appointed, a committee of ten, to undertake not only these bonds but the question of governmental ownership in a broad way. So it is the desire of the railroad interests that the whole railroad problem shall be presented from every angle.

It is the purpose of this Commission to call before it laborers, shippers, railroad men and others to see what the facts are and

try to reach an intelligent understanding. We see how successfully that sort of investigation can be used when we consider the legislation which grew out of the Aldrich Commission. We hope that the same good fortune may flow from this, and we look forward to a sane solution of the railroad problem along the lines which Mr. Hines has suggested. We hope the creditors, the real owners of these properties, shall be present at these hearings, and we hope that through them the attitude of the banking interests can be reflected to that Committee. We hope that the necessity of maintaining an adequate surplus and supplying the railroads with the sinews of war will be impressed upon that committee by the men whose business it is to sell these securities to the investing public. Our experience has taught us, at Washington and elsewhere, that the great thing that counts there is votes, and I believe it to be rather essential that the powers at Washington and at the State capitols should be made to feel the power of the security holding interests of the country. Too often they have been silent in the face of organized opposition from every source, and I hope we can work out some method of co-ordinating interests.

We have seen this can be done successfully, as it was by the United States Chamber of Commerce. We have seen that also in the case of the success of the labor unions, where they achieve results by the power of organization, and it seems as if with the great number of bankers and banks and savings bank depositors that we have a great vital interest which should have some organized method of expression. I believe it is not only your privilege but it is your duty to see that this thing is understood by them, and their interests protected. So I believe as a citizen and as a business man that you should go through this program and make it profitable; and I am sure it will be to the advantage of every man with a security or a business interest to sell. (Applause.)

The President: I will now call for the Report of the Committee on Irrigation Securities. In the absence of Mr. Prescott, the Chairman, I will ask Mr. Frank C. Paine to read the report.

REPORT OF COMMITTEE ON IRRIGATION SECURITIES

The membership of your Committee on Irrigation Bonds is so widely distributed geographically that a meeting of the entire Committee has seemed impracticable. We have conducted correspondence and have given much serious thought to the subject assigned us, but have thus far developed no complete plan of a constructive character. In the Pacific Northwestern states "Municipal Irrigation District Bonds" are popular. "Irrigation District Bonds" are being sold in California.

At the convention of 1914 in Philadelphia, Mr. A. C. Foster, then Chairman of this Committee, presented a very carefully prepared and comprehensive report which was followed at the convention of 1915 by the report of Mr. H. P. Wright, written in characteristic vein and read at the memorable meeting in the rarified atmosphere of Estes Park. These two reports contain an excellent discussion of the various methods of organizing irrigation enterprises and issuing their securities, as well as many of the weak points and sources of danger brought to light by past experiences. While the subject is a broad one and may be viewed from many angles, it does not seem an opportune time to review or elaborate upon the ground they have already covered so thoroughly.

In many of the Western states where irrigation is most needed the laws covering water rights, district organization and bond issuance are far from perfect, and the realization of this is bringing about greater activity in the study of the subject of irrigation by practical people who are interested in the development of the natural resources of the States in which they live and who appreciate the necessity of making safe and attractive to the investing public those securities upon whose sale the future growth and development of their locality is so dependent.

In the State of California, at the last session of the Legislature, a States Water Problem Commission was created to study all of the water problems of the State. Of the many briefs filed with this commission, one from the pen of a well-known bond dealer in San Francisco deserves particular attention. This brief discusses the various measures proposed and makes the following suggestions for legislative action which would greatly improve the market for irrigation district bonds.

1. Simplify the legal procedure covering the organization of a district.
2. Simplify the legal procedure covering the issue of bonds.
3. Place the power and authority to issue and sell Irrigation District Bonds and levy and collect the necessary tax in the hands of county officials.
4. Prohibit organization and bond issuing until justification of both steps is approved by a State Commission comprised of men capable of forming sound conclusions with respect to the feasibility of each new project, and whose time would be exclusively available for such work, including a permanent supervision over the affairs of all districts.

Your Committee has read and considered numerous suggestions with reference to irrigation legislation. Most of them follow the ideas generally outlined by our California correspondent, though there are many variations of detail suggested, some of which undoubtedly have merit.

As stated above, your Committee has no constructive plan to recommend at this time, but suggests that the Association continue its interest in the subject of irrigation bonds; perhaps not with the idea of being the prime mover in bringing about needed changes, but rather of co-operating with those organizations in the irrigation states who are actively interested in developing the natural resources of those states through irrigation. The people primarily interested in irrigation development are the people who are interested in those resources, and they should initiate the activity. But this Association can undoubtedly render services of great value to the public and its own members by watching the development of the local laws and counseling with those bodies active in securing their enactment, in order that all necessary and practical safeguards may be thrown around such securities as may be issued.

The data accumulated from time to time by the various irrigation committees of this Association will in time prove to be of great value to those of us who are called upon to make investigation relative to irrigation matters, and it is respectfully recommended that future committees of this Association be requested to forward to the Secretary's office their correspondence files and detailed data accumulated, all with the thought that within the near future the files of our Secretary's office will be complete with briefs of the irrigation laws of those States wherein irrigation is most practiced and that the availability of these briefs and data will save our members much expense and effort.

It is further recommended that membership of the Irrigation Committee of this Association be made up largely of investment bankers residing in those states where irrigation is necessary and who are having constantly brought to their attention data and information relative to irrigation matters.

Respectfully submitted,

JOHN A. PRESCOTT, *Chairman.*

The President: The report is received. Is there any comment? If there is no instruction or comment, it will be received and printed.

We will now have the report of the Nominating Committee. It will be presented by Mr. W. R. Compton.

Mr. Compton (William R. Compton Co., St. Louis): Mr. President and Gentlemen of the Convention: Section 3 of Article VII of the Constitution and By-laws of this Association provides that the Board of Governors in each year shall select the regular ticket of officers to be voted on at the next annual meeting. In accordance, therefore, with the foregoing provision I present on behalf of the Board of Governors the following nominations:

REPORT OF NOMINATING COMMITTEE

For President:

LEWIS B. FRANKLIN, Guaranty Trust Company of New York, New York.

For Vice-Presidents:

ALLEN G. HOYT, National City Company, New York.

JOHN E. BLUNT, JR., Merchants Loan & Trust Co., Chicago.

BARRETT WENDELL, JR., Lee, Higginson & Co., Boston.

H. P. WRIGHT, H. P. Wright Investment Co., Kansas City, Mo.

WILLIAM G. BAKER, JR., Baker, Watts & Co., Baltimore.

For Secretary:

FREDERICK R. FENTON, Devitt, Tremble & Co., Chicago.

For Treasurer:

J. SHEPPARD SMITH, Mississippi Valley Trust Company, St. Louis.

For Board of Governors:

DANIEL K. DRAKE, Perrin, Drake & Riley, Inc., Los Angeles.

EDWIN WHITE, White, Grubbs & Co., St. Paul.

JAMES N. WRIGHT, James N. Wright & Co., Denver.

JOHN W. HALLOWELL, Stone & Webster, Boston.

STACY C. RICHMOND, Winslow, Lanier & Co., New York.

HOWARD F. BEEBE, Harris, Forbes & Co., New York.

LEWIS H. PARSONS, Graham & Co., Philadelphia.

WILLIAM G. LERCHEN, Watling, Lerchen & Co., Detroit.

*CHARLES H. GILMAN, Charles H. Gilman & Co., Portland, Me.

**DAVID A. EDGAR, Edgar, Ricker & Co., Milwaukee.

* To fill unexpired term of one year of Wm. G. Baker, Jr., nominated as Vice-president.

** To fill unexpired term of two years of J. Sheppard Smith, nominated as Treasurer.

(Mr. A. C. Foster, Sweet, Cansey, Foster & Co., Denver, Vice President, presiding)

The Temporary Chairman: In view of the fact that there are no other nominations, a motion that the rules be suspended, and that the Chair cast a unanimous vote for those nominated would be in order. The Chair would entertain a motion of that kind.

(Motion was duly made and seconded.)

It has been moved and seconded that the Chair cast a unanimous vote of all present for the persons nominated. Those in favor of the motion will say aye.

(The motion was carried unanimously.)

The Chair announces that the unanimous vote of this Convention has been cast for these gentlemen. Is it your desire that I

read these names off, or shall we understand that these are the ones that have been elected? (Cries of "It is understood.") If there is no objection then, the gentlemen's names as read by the Nominating Committee are the officers and directors for the ensuing year.

The next matter of business, gentlemen, are the invitations which have been presented to us for the next year's convention.

Mr. Wendell (Lee, Higginson & Co., Boston): Those of us at Boston would be very glad to get you there. We have not brought any letter from the Mayor or any one else, but we would like to have you. (Applause.)

The Secretary: I have some letters here as follows. I will just read who they are from.

The Chicago Association of Commerce.

The Board of Commissioners, Asbury Park, N. J.

The Atlantic City Publicity Bureau.

The Chamber of Commerce of Norfolk, Virginia.

Quite a number of other places have sent in, during the year, saying they would like to have the convention, but those are all we have heard from, except I believe someone from Baltimore wishes to say something, Mr. Chairman.

The Temporary Chairman: Are there any further invitations?

Mr. Baker (Baker, Watts & Co., Baltimore): Mr. President, the Secretary has some formal invitations from various trade bodies and municipal officials of our City of Baltimore. Back of those invitations, and in front of them, and all around, is the unanimity of every member of the Investment Bankers Association in Baltimore, 16 of whom out of 19 are here to-day or have been at the Convention. We welcome you very heartily and we hope you will come. (Applause.)

The Temporary Chairman: Are there any further invitations?

Mr. Compton (William R. Compton Co., St. Louis): Like my friend, Mr. Wendell, of Boston, I have an enormous quantity of telegrams and telephone messages from all the citizens of St. Louis, and the civic bodies — and the brewery, and various other people who ask for St. Louis for next year. We do not want to push our contention too much against our good friends in Baltimore. We would like to have you there if not this year, next year, or the succeeding year.

Mr. Williams (Fidelity Trust Co., Baltimore): I move that the letters from Baltimore be read by the Secretary.

The Temporary Chairman: If there is no objection, the Secretary will read the letters.

The Secretary: Do you want me to read the letters in full, or just the names?

The letters are as follows:

EXECUTIVE DEPARTMENT

ANNAPOLIS, MARYLAND.

SEPTEMBER 30, 1916.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association of America,
Cincinnati, Ohio.

My Dear Sir:—On behalf of the people of Maryland, as its Chief Executive, I desire to extend an invitation to your Association to hold your next annual convention in 1917 in Baltimore City.

It is needless for me to express at length the advantages which Baltimore City possesses for convention purposes. I am confident that these advantages will be fully presented by the delegation from the State which will attend your annual convention in Cincinnati from October 1st to 4th inclusive.

On behalf of the State, I want to earnestly urge upon your convention the claim of Baltimore City and to give full assurance should your next convention meet in Baltimore that every effort will be made on the part of the State and the City for the success of the convention, and that every courtesy under our control will be extended.

Sincerely hoping that Baltimore may be favorably considered for the convention, I am,

Very truly yours,

EMERSON C. HARRINGTON, *Governor*.

BALTIMORE, MD.

SEPTEMBER 29, 1916.

Mr. F. R. Fenton, Secretary,
Investment Bankers Assn., of America,

In Annual Convention at Hotel Sinton, Cincinnati, Ohio.

My Dear Sir: On behalf of the City of Baltimore, I am extending an invitation to your Association to hold your 1917 Convention in the City of Baltimore.

Baltimore has taken a keen interest in the Investment Bankers Association since its inception, and feels a natural pride in its development, and the increase of its activities and influence.

Our situation on the Atlantic Seaboard at the head of the Chesapeake Bay, together with our great railroad terminals and steamship lines, our great educational institutions, modern and progressive municipal activities, will render the stay of your members in Baltimore both delightful and instructive.

Baltimore has completely rebuilt its surface and sub-surface structures during the past six years; completed a modern sewerage system; installed a modern filtration plant; widening and opening streets and avenues; municipally-owned piers, and various other extension of the city's activities, which has cost from the capital account upwards of a sum of \$45,000,000.00. This sum has gone into the hands of investors.

The recent purchase of Mr. Chas. M. Schwab of the Maryland Steel Works at Sparrows Point, is an additional investment of \$40,000,000.00. The location at Curtis Bay in the Baltimore harbor of industrial plants aggregating \$25,000,000.00 is perhaps sufficient guarantee of the value distribution of Baltimore as an investment and trades center.

If you come to Baltimore in 1917, we assure you of the proverbial Baltimore welcome.

Very truly yours,

JAMES H. PRESTON, *Mayor.*

TELEGRAM

BALTIMORE, MARYLAND.

SEPTEMBER 30, 1916.

Lewis B. Franklin, Esquire,

Investment Bankers Association of America,
Hotel Sinton, Cincinnati, Ohio.

We should like mightily to have the Investment Bankers Association hold its annual convention in Baltimore in October nineteen seventeen. We extend you a most cordial invitation and promise a warm and reasonable stimulating reception.

B. HOWELL GRISWOLD, JR.
President, Board of Trade.

BALTIMORE STOCK EXCHANGE

SEPTEMBER 29, 1916.

Mr. Frederick R. Fenton, Secretary,

Investment Bankers Association of America, Cincinnati.

Dear Sir: I understand that the Baltimore members of your Association are extending an invitation to the Association to hold its annual meeting in 1917 in Baltimore.

As President of the Baltimore Stock Exchange, I wish to most heartily endorse this invitation and to express the hope that the Board of Governors of your Association will accept it.

I can assure you that all the members of this Exchange, whether they belong to your Association or not, will give you a warm welcome to Baltimore and will do all in their power to make your convention a success, and your stay here a most agreeable one.

Sincerely yours,

H. A. ORRICK, *President.*

MERCHANTS AND MANUFACTURERS ASSOCIATION

BALTIMORE, SEPTEMBER 29, 1916.

Investment Bankers' Association of America,
c/o Frederick R. Fenton, Secretary,
Hotel Sinton, Cincinnati, O.

Gentlemen: We take pleasure in extending to your organization a most cordial invitation to hold your 1917 convention in the city of Baltimore.

Baltimore is THE CONVENTION CITY and many of the largest and most important gatherings have been held here in the last year or two. His Excellency, Woodrow Wilson, was nominated in Baltimore. The Associated Advertising Clubs of the World and the National Canners Association held their most successful conventions here.

In the Fifth Regiment Armory we have what is conceded to be the finest convention hall in the United States.

Baltimore is the home of the Johns Hopkins University, Walter's Art Gallery, Peabody Institute, Goucher College, and many other institutions of national repute. In Druid Hill Park, Baltimore has the finest natural park in the world and the city is alive with historic features, which are closely associated with the history of our country.

Baltimore is not only the Metropolis of the South, but stands first in the manufacture of cotton duck, straw hats, men's clothing, fertilizers, copper, tin and sheet iron products.

We have ample hotel accommodations. Baltimore has always been noted as the gastronomic center of the Universe and its hotels are celebrated for their famous Maryland cooking.

We sincerely trust that your organization will act favorably in the matter.

Very truly yours,

CHARLES E. FALCONER, *President.*

Attest: Robert J. Beacham, Secretary.

BALTIMORE CHAMBER OF COMMERCE

BALTIMORE, SEPT. 28, 1916.

Mr. Frederick R. Fenton, Secretary,
Investment Bankers Association of America,
Hotel Sinton, Cincinnati, Ohio.

Dear Sir: Permit me to express the earnest hope that your Association will select Baltimore as the place for your 1917 Annual Convention.

The unusual industrial development our city is experiencing together with the visible proof of heavy expenditures for municipal improvements under honest and judicious management would, we believe, prove of especial interest; while the historical places of interest, our suburbs and Chesapeake Bay attractions would be enjoyed by your members and ladies.

Trusting our city may be favored, and with confidence that if Baltimore is selected, no disappointment would result, I am, with kind regards,

Yours very truly,

JAMES C. LEGG, *President.*

STATE OF MARYLAND

STATE ROADS COMMISSION, BALTIMORE, MD.

SEPTEMBER 30, 1916.

Mr. F. R. Fenton, Secretary,
Investment Bankers' Association of America,
Hotel Sinton, Cincinnati, Ohio.

Dear Sir: It has come to our attention that the Baltimore members of your Association will extend an invitation to your Association to come to Baltimore in 1917 for your annual meeting, which we hope you will accept. We extend to you our hearty greetings, and trust that you will make use of many of our improved roads and visit the points of interest in the State during your stay.

If your Association accepts the invitation, I have no doubt that a number of your members would like to motor here, and if they will write us in advance of their coming, we shall be glad to furnish them with maps, outlining the State road system of Maryland, and shall also be pleased to give them any other information they may desire, in order to reach our city.

Very truly yours,

F. H. ZOUCHE, *Chairman.*

THE CHICAGO ASSOCIATION OF COMMERCE

10 S. LaSalle Street

CHICAGO

September 10, 1916.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association of America,
1920 Harris Trust Bldg., Chicago, Ill.

Dear Sir: Chicago, the Convention City of America, urges your consideration of the invitation enclosed herewith, cordially inviting the Investment Bankers Association to convene their next convention in Chicago. Will you please present this invitation to the members of your Executive Committee?

In Chicago you will find every thing which tends to produce a successful convention, namely: Minimum expenditure of time in traveling, at minimum cost — maximum comfort for your delegates, which means a large attendance at your convention — modern, fire-proof hotels, suited to every purse — unequalled market advantages — innumerable facilities for recreation and enjoyment. In other words, you will find here a convention city which is accessible, comfortable, interesting and hospitable.

We hope that your organization may accept Chicago's invitation and assure you that this Department will be glad to assist you in every way possible in working out the details of your convention program.

Very truly yours,

By GEO. M. SPANGLER, JR.
Manager, Bureau of Conventions.

THE PROVIDENCE CHAMBER OF COMMERCE

SEPTEMBER 25, 1916.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association,
111 West Monroe Street, Chicago, Illinois.

My dear Mr. Fenton: The Providence Chamber of Commerce desires to extend a cordial invitation to the Investment Bankers Association to meet in this city for their next annual convention. To that end, I am enclosing an invitation which we would like very much to have you present at the meeting to be held in Cincinnati, October 2-4, and do what you can that it may be successful in its purpose. Thanking you for your kind attention in this matter, I am on behalf of the Convention Committee (Mr. Fred Mansfield, Chairman),

Very truly yours,

CHARLES S. COULTER,
Secretary Convention Committee.

THE PROVIDENCE CHAMBER OF COMMERCE

SEPTEMBER 25, 1916.

The Investment Bankers Association,
In Convention Assembled,
Cincinnati, Ohio.

Providence, the largest city in the smallest state of the Union, Southern Gateway of New England, cordially invites your Association to meet within its borders in 1917, feeling that no greater honor could come to the city than to have your members as its guests.

To anyone familiar with the topography of the country, it needs no argument to show that a visit to these parts would be interesting, entertaining and highly instructive. Providence, the second city in New England, is situated within a comparatively short distance from New York, the Metropolis of the country, and Boston, sometimes dubbed the Hub of the Universe, making it easy for the delegates to a convention to see both cities, either on the way to or from the convention. Providence is easy of access from any part of the country, being a terminus of five divisions of the New York, New Haven and Hartford Railroad, as well as of some three score electric lines, three boat lines to New York and several other Coast-wise lines running to Baltimore, Norfolk and other points.

Our facilities for handling your convention are unsurpassed. You will find here ample hotel accommodations of the first class to house and feed your delegates in comfort, and our hotels are under agreement to charge no more than the regular commercial rates to convention delegates, this arrangement allowing the hotels to lower their prices if they wish, but never to raise them.

Trusting that this invitation will receive due consideration, we remain, on behalf of the Providence Chamber of Commerce,

Respectfully yours,

FRED MANSFIELD,
Chairman Convention Committee.

CHARLES S. COULTER,
Secretary Convention Committee

BOARD OF COMMISSIONERS
ASHBURY PARK, NEW JERSEY

SEPTEMBER 8, 1916.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association,
Chicago, Ill.

Dear Sir: The City of Ashbury Park, N. J., extends its very cordial greetings to the members of your organization and has the pleasure to invite them to hold their 1917 business session in this beautiful City by the Sea.

Ashbury Park is best known as the "Town without a Frown" which is sufficient assurance of a most hearty welcome.

Sincerely yours,

C. E. F. HETRICK,
Mayor and Director of Public Affairs.

CHAMBER OF COMMERCE OF NORFOLK

NORFOLK, VA., JULY 19, 1916.

Mr. Lewis B. Franklin, President,
Investment Bankers Association,
New York, N.Y.

Dear Sir: We are aware that the next convention of your organization is to be held at Cincinnati, O., consequently our particular interest is directed toward the next succeeding meeting.

On behalf of Norfolk, Virginia, and its citizens, we beg to extend through you to your organization an earnest and most cordial invitation to "COME TO NORFOLK" with your next convention.

Norfolk is to the tourist one of the most interesting places on the Atlantic Seaboard, with CLIMATE CONDITIONS MOST EQUABLE, permitting out of door entertainments during practically the entire year.

EIGHT Railroads and many steamship lines insure MOST SATISFACTORY TRANSPORTATION SERVICE — our MANY SEASHORE RESORTS — our MANY EXCELLENT HOTELS — our MANY POINTS OF INTEREST historically and otherwise — make for the most satisfactory visit for the stranger.

Kindly consideration of this request by the proper officers of your organization will be appreciated, and any advice that you may give us at your earliest convenience will be appreciated by,

Yours very truly

W. A. COX, *Secretary.*

ATLANTIC CITY PUBLICITY BUREAU

ATLANTIC CITY, N. J., SEPT. 11, 1916.

Investment Bankers Association,
Chicago, Ill.

Gentlemen: We would like to obtain your next convention for Atlantic City and trust that at the proper time and place you will take favorable action upon this, our hearty invitation.

Our Resort is an ideal convention city and its attractions are unsurpassed anywhere, while its hotel accommodations are practically unlimited, being the most modern and reasonable of any similar place in the world. Our railway facilities are the best in the United States, being only one hour's ride from Philadelphia and three from New York City. Transportation can be arranged for at as low rates as any point in the country. We would have no trouble whatever in taking the best care of the delegates and others who attend our convention, and this Bureau will give you all possible assistance desired without any expense to you for our service.

This Bureau, or some hotel connected with it, will provide for you at its own expense a satisfactory meeting place for your business sessions, and the ocean piers afford unrivalled opportunities for large exhibits. Our annual average of State and national conventions is 160.

Should any of your officers or committees visit Atlantic City I trust that you will get in touch with me, so that I can give you any needed assistance in showing you the unsurpassed convention facilities of our city, its hotels, piers, etc.

This invitation is extended not only by the Bureau of Publicity, but also on behalf of Atlantic City Hotel Men's Association and the Atlantic City Chamber of Commerce.

Should Atlantic City be favoured with your next meeting, please so advise me, and, if desired I will be happy to co-operate in making it a success to all interested.

Very truly yours,

GEORGE S. LENHAERT,
Secretary-Director

The Chairman: It has been the custom in the past, I believe, to refer the matter of these invitations to the Board of Governors. It has to be under the Constitution and By-Laws of the Association. If there is no objection these invitations will be referred to the Board of Governors for their proper action.

Now that you have re-elected your old President, as well as elected your new President, I would like to introduce him to the Chair and see what he looks like. (Applause.)

(Here the President, Lewis B. Franklin, resumed the Chair)

The President: I have been talking too much, anyway, and shouting too much at the smoker last night, and I am not going to make a speech, but I am going to say to you that I appreciate very deeply the expression of confidence in the administration of the past year. I can tell you that I am very glad to devote again the very considerable amount of time required in the Executive of this organization.

The principal reason that I am glad that the Nominating Committee saw fit to re-nominate me, as President of the Association, is the fact that I will, for another year, have the privilege

of meeting from time to time, the members of the Association, and more frequently with the members of the Board of Governors whom I number among my best friends.

I shall try to give the Association's work just as much time and attention as I possibly can, even in the press of present active business. I can assure you that I shall be delighted to consult with anyone of you or all of you, at any time during the year on the work of the Association. Again, I thank you for your vote of confidence. (Applause.)

Delegates are invited to visit the home of Mr. Charles P. Taft, any time between now and six o'clock. It is right near here.

I call your attention to the banquet at seven o'clock this evening. Is there any further business?

Mr. Wright (H. P. Wright Investment Co., Kansas City): If you have finished the business on the program, there is another matter I would like to call to the attention of the Convention before we adjourn. We all appreciate, I am sure, the faithful work that our Secretary has done for this Association, and feel that appreciation ought to be shown in some substantial sort of a way; and as he has gained a little further in the way of avoirdupois, and years of dignity, and as it is some distance, two or three blocks, between his office and the office of the Association in Chicago, and as he is wearing out the sidewalk going back and forth, I move that he be authorized to buy himself a Ford automobile 1917 model, to use exclusively in going back and forth between his office and the office of the Association. (Laughter.)

The President: You have heard the motion. All in favor will say aye. (Motion carried unanimously.)

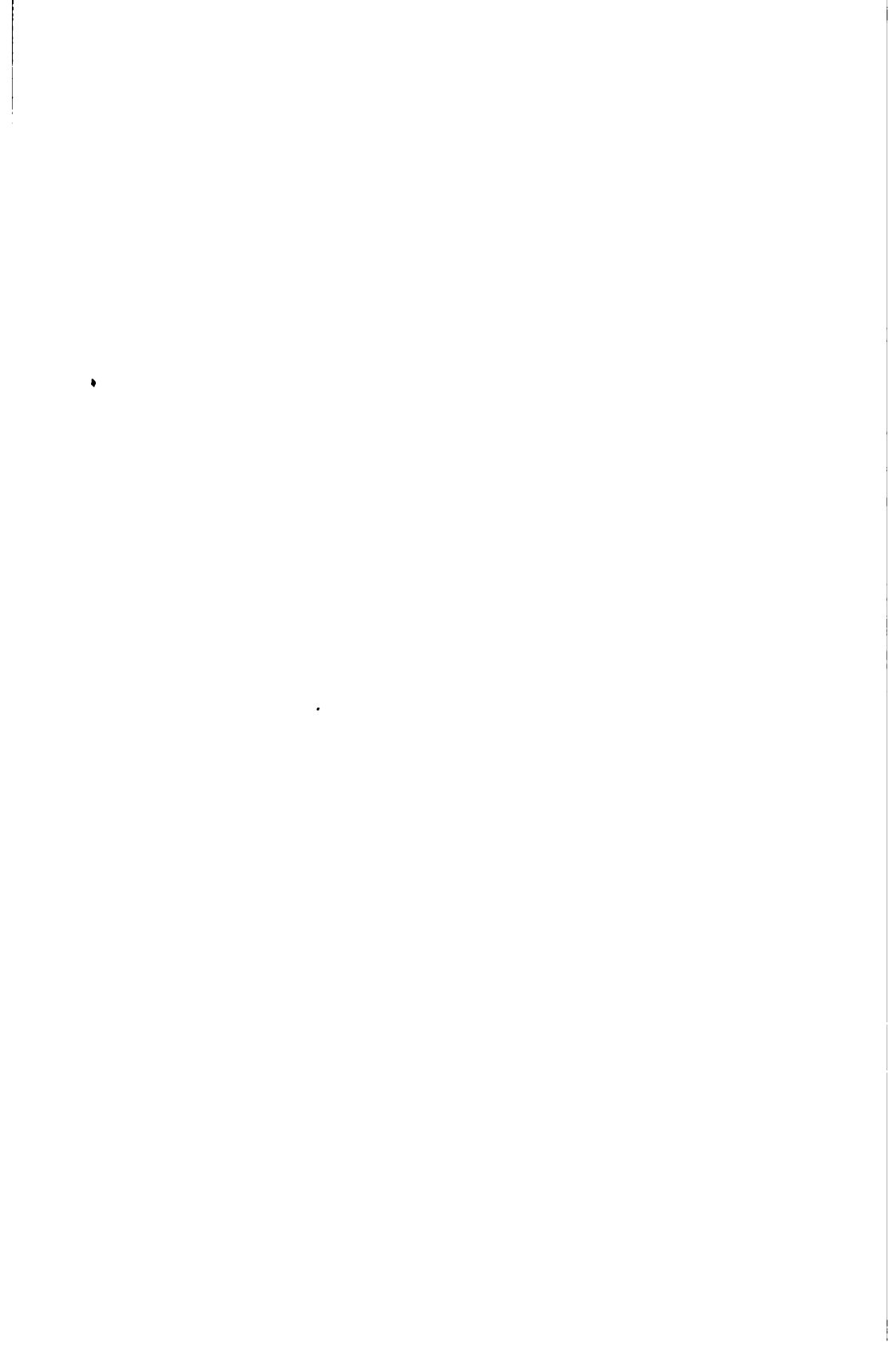
Mr. Williams (Fidelity Trust Co., Baltimore): I do not know if this is a matter that should come before this body or not, but it seems to me that before this Convention formally adjourns, that certainly there should be some formal and specific expression of thanks and gratitude offered to the Entertainment Committee and to the people who have had in charge the splendid arrangements which we have all enjoyed. I would suggest that a motion of that sort be made.

The President: Won't you present such a motion?

Mr. Willaims: I do present such a motion. (The motion was duly seconded.)

The President: It has been moved and seconded that the thanks of this Association be extended to our hosts of the City of Cincinnati for their delightful entertainment. Is there any discussion? All in favor will kindly rise.

(The motion was carried unanimously.)



Proceedings *of the*
Fifth Annual Banquet
of the Investment Bankers
Association *of*
America

Wednesday
Evening,
October 4,
1916



Fifth Annual Banquet of the Investment Bankers Association of America

Hotel Gibson, Cincinnati
Wednesday, October 4, 1916

Hon. WM. B. MELISH, Toastmaster

The President: I want to read two telegrams received after the close of our afternoon session:

"The Farm Mortgage Bankers Association of America sends cordial greetings to the Investment Bankers' Association of America and congratulates it upon the fine attendance at its Fifth Annual Convention. Our interests as dealers in investment securities are closely allied and this Association tenders its co-operation whenever and wherever co-operation seems desirable.

F. W. THOMPSON, *President.*"

(Applause.)

The other telegram is as follows:

"The most hearty congratulations and greetings from the American Bankers' Association. Your organization has met with unparalleled success which is exceedingly gratifying to me and you are entitled to great credit. I regret to say that I cannot be with you.

FRED E. FARNSWORTH, *General Secretary.*"

(Applause.)

You are all tired of hearing me talk, and I am not going to talk to you tonight. But I know that you want me to say this much, that in your name and in the name of the Investment Bankers Association I want to express to our hosts of the City of Cincinnati our sincere appreciation of their wonderful hospi-

tality. (Prolonged applause.) Cincinnati is known as the Queen City of the West, and yet I think that in part of that name she is ill-named. She certainly is a Queen City, but of the West,—No, not of the West. Cincinnati lies very close to the center of population of this country. Cincinnati combines the conservatism of the East, the aggressiveness of the North, the broad heartedness of the West, and, best of all, the hospitality of the South. (Applause.)

This hospitality was so wonderfully shown by the Committee on Reception and Program during the last three days. I know for one that I shall never forget. We shall hold Cincinnati in our hearts alongside of Denver, Chicago and Philadelphia, that have so ably entertained us in the past. However, having expressed our appreciation, I will turn over the rest of the program to the Toastmaster and ask Colonel Melish to take charge of the evening—Colonel Melish! (Applause.)

Hon. William B. Melish (President Cincinnati Chamber of Commerce): Mr. President, Visiting Brethren and "Cincinnati Boys": It is with a great deal of pleasure that I acknowledge the complimentary remarks made by the President of the Association towards the Committee of Cincinnati. I have been away during the last few days, but I have kept tab upon you good people through the daily press. If there is anything in this town that you have not had I do not know what it is and I have been here some 60 years; (laughter), in fact, looking at it from my grandfatherly point of view, you have got some things I never knew were here. (Laughter.)

As President of the Chamber of Commerce, a strong organization of 3500 people, that, by reason of its commercial activity, has to be known for dignity, especially in its President, I want to thank you for the bringing of this Convention to us. I never have seen a crowd that looked more like "ready money" than this one. (Laughter.) I suppose that is the reason that the Committee decorated the ceiling with something that looks like money that is not a sort of inflated currency and so rapidly on the move that we manufacturers cannot get hold of it.

I have been posting up on some of your celebrities, and this is what I got about Franklin (this comes evidently from a friend); I am told "He is a very young man, although he guides the destinies

of several hundred millions for his institution. He is a bachelor, a wonderful golf player and a fine movie actor." (Laughter.)

I may tell you he is also a great automobilist. It is said that Franklin got an automobile and one of his friends saw him coming down the avenue with it and he said to him, "That automobile of yours looks like a joke," and Franklin said, "That is the reason I bought it. It is better to have an automobile that people laugh at than one that makes them mad." (Laughter.) Any Investment Banker can "af-FORD" that type of car.

I am the kind of the pessimist that has too much sense to try and make the speech of the other fellow. I have made a good many after-dinner speeches myself and if there is any abomination in the sight of the Lord, it is a toastmaster that makes your speech for you and then sits down and has told all the things that you were to tell. You can bet I am not one of that kind. (Laughter.)

My duty is merely to introduce the speakers of the evening and I am glad to say, for your benefit and to my credit as the Toastmaster, that there are only two of them at least in sight.

I want to express my admiration to this association of investment bankers. You are a new variety to me. I notice that every morning you open your exercises with prayer. (Laughter.) I note that you have different kinds of prayers; (laughter) that you play all kinds; (laughter) that you call in a Jewish Rabbi — at par — and a Methodist at 1.15 and then you wind up with my good friend here, the Bishop of the Diocese of Ohio, Bishop Vincent, who is the *ne plus ultra* (2.00 asked) as a Chaplain. (Laughter.) You people probably would not know it, but I, being a frequent hearer of his, can tell you he is all right. Then I notice you got here on *Sunday*. That is a new thing in conventions with us (laughter), and then I read in the paper what you did on Sunday (laughter). I don't mean that I got all you did on Sunday but only what you permitted, through your Secretary, to appear in the papers on Sunday.

I notice you all went to the Zoo, of course as brokers and investment bankers, to get a new scent. (Laughter.)

There is Mr. Wolf out there, and Mr. Bear, and Mr. Bull — Buffalo, and the bears and bulls scent — per scent, always go with the Zoo stock. You are welcome to all that you got out there and we hope that you will take it out of town when you go. (Laughter.)

We will now proceed with the "solemn ceremonies" of the evening.

The first speaker is a gentleman I have heard of for some years. I am going to change the order of toasts and take the last speaker and put him first, and then take the gentleman from Oklahoma and put him last. This is with his consent and with the consent of the gentleman from Dayton.

I read the other day about a young lady at Plattsburg, where the boys have been taking a month of preparedness and thinking they were soldiers. You notice my title is "Colonel." I served in the Spanish-American War — in Cincinnati! (Laughter.)

I was a Colonel on the Staff of the lamented McKinley, and also on the Staff of General and Governor Bushnell. I bought navy beans for soldiers during the Spanish-American War and camped out at Columbus, and the official records show that I had as much blood on my sword as any other Ohio Colonel that went out and who did not get out of the United States. (Laughter.)

This young lady at Plattsburg, that I speak about, was startled by the firing of a volley of rifles, and she fell into the arms of a nearby young guardsman. She said, "Excuse me, the noise of the rifles scared me so I fell back." He said, "Oh, never mind that; let's go over and watch the heavy artillery!" (Laughter.)

A gentleman from Dayton, the Probate Judge of that county, — the kind of a probate judge who says he is "The Judge of the widow and the orphan," and he always puts the widow first. We have an insurance company here that advertises "The first to reach the widow." (Laughter.)

Up in Dayton, that splendid little city sixty miles up the Miami Valley, that city that has come out of the disaster and terrible distress of the floods of 1913, and that is now rehabilitated and is a splendid city,— in that little city Judge Baggott is supposed to have miscalled his profession, and it is thought that he should be at the head of a "natural" gas company. (Laughter.)

Now, what he deals in, in after dinner speeches, is Laughing Gas; he reminds me of a Scotch friend who went to a dentist with a severely aching tooth, and the dentist said: "It'll have to come out," and the Scotchman said, "Mon, I'll take gas then." The dentist said, "All right, I'll give you natural gas." And while he was getting the gas ready, the dentist noticed that the Scotch-

man was counting his money, and he said, "You don't have to pay for this until the tooth is out." The Scotchman replied, "Hoot mon,— as you're gaing to mek me unconscious, I'm counting my money!" (Laughter.)

Now, I have never heard this speech of Judge Baggott's, I am glad to say — I am making these remarks as I hear Baggott is somewhat of a "roaster," and he can get back at me as he pleases. The title of his remarks tonight is "Ask Dad, He Knows." That reminds me of a little girl in Atlantic City last summer, (it's all right, "Ask Granddad, he knows.") This little girl was from Canada and she was walking along with her father, and a colored woman came down the board-walk and she was very black. The little girl shrank back frightened and said, "Oh, papa, look at that *black* woman! She scares me." Papa said, "Dearie, that is a negress, and she is black but she won't harm you. She is just like any other woman, but she is black in color."

The little girl said, "Papa, is that woman black all over? Is she as black all over as she is in her face?"

Papa said, "Yes, dearie; she is black all over."

The little girl said, "Well, papa, you know everything, don't you?" (Laughter.)

I have pleasure in introducing to you Judge Baggott of the Probate Court of the City of Dayton, Ohio, whose remarks will be centered around "ASK DAD, HE KNOWS." (Laughter.)

“ASK DAD, HE KNOWS”

HON. ROLAND G. BAGGOTT
Judge, Probate Court, Dayton, Ohio

Mr. Toastmaster, President Franklin and my Fellow Conspirators: The story told by the Toastmaster, appreciated though it was, in all fairness it is to be recognized that its excellence depends largely upon its age. (Laughter.)

William Wirt of lamented memory, the biographer of Patrick Henry, recites at page 10 or 11 — I forget just which — that Columbus, to borrow a current phrase, “Kicked an Indian in the slats for telling the same tale.” (Laughter.) If to be revered for nothing else, surely the story is entitled by its antiquity to that respect.

He has told you of my efficiency as a natural gas expert. Well, what a shrinking, modest little violet your Toastmaster is, hiding his head 'neath the woodland leaves, so to speak, for fear his real identity will be disclosed.

It has been my good fortune by reason of prompt payment of dues to belong to the wonderful fraternity of which he is a member. He has reached a rung on the ladder to which I never hope to attain; he is a member of the 33rd and Last Degree. Did you get my pronunciation of that word, “lahst” Degree? (Laughter.) And he has lived on that ever since.

Not as an honorary member of the mutual admiration society did I commend him to your consideration, but as a fine, splendid gentleman of this, the best city in Ohio, after the gem city of the valley has been eliminated. (Laughter.)

It is a source of more than ordinary pleasure to participate as a guest in this most magnificent meeting. The only unkindly thing I have witnessed tonight in response to my inquiry to good Charlie Hinsch, as to why I was here, he replied thus: “Why, Judge, feel perfectly at home. These fellows are much as you are, rich in promise, impoverished in collateral.” (Laughter.)

In fairness to you and me, let it be said that Mr. Hinsch is a sordid, mercenary banker. (Laughter.) Well, let us say he is a banker, and why discuss the obvious? Of course he is sordid and mercenary. (Laughter.) And yet, he has ambitions sufficient to promote his presence, even with us, who are offering stock in the

McKinley mines, some Nevada oil company, or anything else that can inspire the working of a printing press, at least for the eight-hour a day. (Laughter.)

With all of the inspiration in which we have participated tonight, I am in favor of an eight-hour night. (Laughter.) Let the day take care of itself.

"Ask Dad — he knows" is a phrase, as you have seen, flaunted here and there, to embarrass the old man now in the eyesight of his child. It is a sacred advertisement, and they ask Dad on the assumption that he knows. He still smokes cigarettes, but not Sweet Caporals. (Laughter.) I had indulged in home runs but not Sweet Caporals. He sometimes smoked the Sweet Caps when he rode his high-wheeled bicycle — ask Dad, he knows — no, he does not. He rode the high-wheeled bicycle, but he refuses to smoke Sweet Caporals. (Laughter.)

In the corridors of my memory are many faded tapestries, that remind me here and there of unpleasant things, and yet Sweet Caporal has no place in the corridors of my memory but the thought is this: That now and then one meets a man past 90 years of age who says the best day has gone by. We should have lived 100 years ago when a funeral really meant something (laughter), when the hearse carried three black plumes on either side, blowing in the breeze, reminding them of a horse's tail, and a funeral really meant something in those days, because we did not hurry about it. He wanted to go back to it. He feels better than that rather progressive, somewhat expedient and hurried time of life.

I admit that really a funeral did mean more than it does now. At least 200 people attended the last obsequies, and the minister took as his text — "Inasmuch as it has pleased the Lord" — no matter whether the woman had been worked to death or not, that was the text.

We buried them in state, and came back and ate up everything that was left in the house.

Nowadays we put the corpse into the automobile, and the mourners likewise, immediately following thereafter, hurry by to the cemetery and on the way back read the will and leave it at the court house for probate. (Laughter.) One set of the heirs employs one lawyer to contest it, and the other employs

lawyers to defend it. I am reminded of the late Lord Bacon's observation, "that the tears of an heir are but laughter under a mask," and then comes the chap selling bonds and securities (laughter), with an absolutely twenty-per cent advancement, that is safe beyond the dreams of doubt or the realms of conjecture — to borrow a phrase.

Of course it was a sort of ripe harvest time with a funeral in the old days. Those were the days when there were plenty of tears and they returned home for a winnowing harvest. Nowadays we get rid of the tears quickly and balance up accounts so that the real assets may be summoned. It is quite a progressive age.

We are told that sentiment and philosophy are altogether different and we were much better off in times that have gone by. If I may be pardoned the indulgence by those who have listened to this before, to you, who may have inadvertently and unsuspectingly traveled here, without any suspicion of what was going to be given you in this splendid city. You know now and then, seriously, one does hear some old chaps, or some young man who has stood still in his common-place, small-minded view, and has not realized that the world has been moving and says that the old day was the best time we ever had.

Frequently it comes from the lips of the demagogue who is politically inclined and he says "Well, of course, now, my father" — "sure father is in the cemetery, and mother — mother lying beside him" — ah, those were the days, and yet in Ohio 25 years ago we had no comforts or conveniences, or even the fine opportunities for early riches that you now offer us. In those days, as I remember, as the late Colonel Ingersoll remarked — "A boy living in the country went to bed, when he was not sleepy and got up when he was." (Laughter.) He slept in the garret rooms, rising very early in the morning. Upon the floor, he would find snow, and upon his bed, the same sort of commodity. Placing his bare feet into his cold boot — because, I say, socks were superfluous in those days, — he slipped — slipped is really the word — slipped down the stairs. He missed the top step in his hurry, but he hit each and every other one twice as he came down.

I am prepared to admit this, that at least upon one occasion twenty-five years ago, there was a holiday observed in the country,

the rural district throughout Ohio, that was well worth while — Thanksgiving time, but a boy got up just as early upon that occasion as he did in the month of June and he hurried downstairs to feed the stock.

I am prepared to make this admission, that we had no indigestion in those days, probably due to the fact that we then had not discovered any breakfast foods. (Laughter.) We just ate ordinary simple food. Hurrying out, waking up the cattle — they wait to be paged by the boy on the farm. In Ohio, cows seem to have more real sense about remaining in bed than the boy. He got them up and fed them so that he might get at his day's work, don't you see, in order to get through, so that he could go back to bed in the middle of the afternoon, so to speak, in order that he could get a good night's rest, so that he could rise early on the following morning, and go through the same performance, quite a poetic and romantic existence. On the day of which I speak, upon Thanksgiving, that was a happy time, by reason of the fact that all our poor relations came out from the city in order to enjoy a square meal.

You remember, it seemed as if there were almost a million of them! And in the morning you remember what a tremendously fine appetite you had. Why you, sir, could eat two thousand yards of country sausage and a million buckwheat cakes,— with a lump of butter as big as a twenty dollar gold piece on each of them, and maple syrup that came from a tree! Now we furnish "Absolutely Pure Maple Syrup" made from corn cobs. Then you ate and ate and ate and went out and played "Fox and Geese" in the sun, and looking up to see when it was noon—that marked another epoch in your life,— you were to eat at noon again. And along about half past ten in the morning came the female that you could not stand! Have you ever noticed that in every boy's family there is a female relative about whose affection he is not a perfect fool? In the family of which I speak this female was known as "Aunt Em." She wore a twist of her hair, which was twisted so tightly that it made her eyes protrude from her head. She was there with a black bombazine, with a wonderful piece of jewelry at her throat — a piece of brass, a piece of gold and a lock of hair under it. That had been clipped from some ancestor, and worn at her throat. She contributed one dollar a year to keep a

missionary in India whose business it was to tell the heathen that it was wrong for him to wear a necklace around his neck made of the bones of his ancestors. I have always thought that as far as the personal adornment feature was concerned, one was about the same as the other. Imagine clipping a lock of hair from your grandfather's head and wearing it at your throat! And as soon as she came, she said, "Come, Willie. Come and kiss your Aunt Emma!" You were glad to do so, just as if she had called you into a corner and said, "You kiss me or I'll beat you to death!" She did that to find out whether you had been smoking a corncob pipe, and if you had, of course she went straightway and told your father. Happy day when father learned of it! (Laughter.)

But no matter how severe the punishment in those days, it never seemed to affect the boy's appetite. You who lived in Ohio remember what a tremendously fine repast had been provided in those days, and there was on the old table,— there was a turkey almost as big as a piano—it seems so now, at any rate, with about a bushel basket of cranberries and sweet potatoes and piccalilli — chow chow — I don't remember it all, you know what you ate in those days — and we ate and ate and ate, and finally, sliding off our chair, we did so with only one regret, that is that we had not been born twins! (Laughter.)

Now, the dear old Aunt Em had a family policy which ran about this way: "Children should be seen and not heard. Let their vittles stop their mouths." And ever since that time we have despised the word "vittles." She said that as she wanted to do the talking herself, and the child was not permitted to voice any opinion. The most pleasant thing in my house is my child's voice and he never indulges in any unhappy speeches in relation to his neighbors' habits. I am the only gossip in our house,— I am the only male gossip in the United States — my, how you folks hate yourselves!— You understand that is purely ironical — Quite so, quite so! And so the day went on and you went into your parlor. Do you remember that parlor? It was a lovely little room, which was opened up on two occasions,— weddings and funerals! Sometimes from the odor in the room you felt the funeral had been belated. Of course we knew in those days that permitting the sun to come in would fade the carpet, but now we know that God's sunshine is worth more than all the old

carpets we can stack in the house. And there you sat on the hair-cloth sofa, which was as cold and slick as the Columbus, Ohio, politician holding an office. More cannot be said and if more is needed, let us hear from Lawrence Geiger!

Thinking of your sons, and the worm that never dies,— of course there was here and there a bit in life that cheered your cold heart. I remember the wonderful bit of furniture that prevailed in Ohio in those days, a three-cornered bit of furniture that stood in the corner and was known as the "What-not"— and it was! (Laughter.)

You remember on the top shelf of it we had three pine cones — I did not say "fine combs,"— we had those for other purposes. But some of them were varnished and some of them were painted gold, these pine cones. On another shelf we had a starfish,— do you remember that starfish?— And on another shelf we had a piece of crockery that contained three brass buttons that had been worn on Uncle Jim's blue blouse when he was in the army. One of the buttons had a dent in it which stopped the flight of a bullet and saved Uncle Jim's life. At least, that is the story Uncle Jim told when he applied for a pension, but, we knowing him, realized that Uncle Jim having on a blue blouse, that having stopped a bullet, Uncle Jim had the blouse buttoned down his back! (Laughter.) And on another shelf we had a wonderful piece of furniture,— you put in a picture and worked it like a shoe horn; it was called a "stereopticon." Every one of them had a view of Niagara Falls in the winter time, and on the lower shelf was the old conch shell, which, taken in the hand and held to the ear, no matter how far away the ocean was, you could hear the ocean's roar. (Laughter.)

There might be legerdemain about many things, but that was real — as I have heard it. There it was, and there you sat in front of the fireside; tiring of the conversation you retired to the old garret where they hung the dried apples and red peppers and you retired there to indulge in amateur theatricals. You remember there Scott's lines: "What ho, without?" And that cousin of yours, he jabbed you in the eye—he was one of Lord Douglas' men — and you came down to your mother and said, "I hope he goes home as Aunt Em gets one leg of the turkey, he gets the other and I get the neck!" (Laughter.) So you sat by

the fireside as the shadows of twilight came on, and you went to bed when you were sleepy, and you dreamed about oceans of mince pie and things of that kind, and not a sailing ship in sight! It was a fine hospitable board, and if we could go back to those days, the selling of stocks and bonds would dwindle and pale into insignificance if we could place at the end thereof that little woman who stood through the entire meal so that her guests might be made comfortable and who left the door following the late departing guests, and climbed the stairs and by the mellow moonlight which came through the dirty window pane into your room,— she gazed on you and said, “My boy! My boy! What does the old world hold in its fist for my boy?”

She who never knew a day's rest until that balmy day in March when she was kindly and tenderly borne to that plot by the old farm where she is to-night, in perfect peace, and perfect rest. It is not within the realm of the possible for her to come back, and if she could, few of us bondholders could remain long,— we would have to be back on the job to see what the bank would loan and — God knows it would be little enough! And you all remember that old garret, festooned with the dried apples, red peppers and sage! Whenever they wanted to dry them, they spread them out on the roof and when the old cat wanted a nap — it went up on the roof. (Laughter.) It was quite sanitary but not altogether appetizing. We did not have a screen on a window in those days, and the bath was in the barrel outside the door, and when you shook it up, why, the tadpoles could be seen wiggling around in the water. Then you will all remember how we used to come home from school with the empty dinner pail, having tried to save some morsel as the means of helping us on our homeward journey, and climbing into what we called the old family safe, with its tin door with holes punched in it, and prying some cold sausage out of a lot of cold grease, and wondering that every boy had an equal chance to be President! What bosh that is to tell to an American boy!

We had none of the splendid department stores we now have, nor the fine newspapers with the means of finding out what is going on in all parts of the world, bringing it to us at the breakfast table. Daniel Webster never sent a telegram. Abraham Lincoln never saw an incandescent lamp. William McKinley,— splendid,

martyred son — never saw an aeroplane,— and this is the home of Wilbur and Orville Wright! This is the finest day in which to live, and I am optimistic enough to believe that to-morrow will be better for the reason that such an organization as the Investment Bankers Association of America is going to make it better. These are perhaps trying times, aside from politics, and I thought until I came to this banquet that I was a Democrat. But seated beside the plutocratic rich here, I have listened to all the abuse that can be given to another man by praising others. What a happy evening I have had, and not one word said in behalf of the Governor of the great State of Ohio! But as long as there is work to be done, why mention Love? So aside from politics I am divested of much. I will give you one hundred thousand guesses to decide how Mr. Franklin and Mr. Hinsch are going to vote. Don't start guessing until to-morrow. But aside from politics I have had a very splendid time.

If it is difficult to control capital; tell me at your leisure how easy is it going to be by legal measures to control labor (laughter) — quite so. If the American Bar Association can exploit the Government, why not the brotherhood of bond sellers, I do not say railway trainmen — but I said bond sellers. (Laughter.)

A certain gentleman prominently identified with labor, said "Let us elect the supreme judges by popular vote, do away with the Senate, give the Industrial Commission authority to investigate capital, and no power to review labor — let the people rule." (Laughter.) This is a democracy — this is a democracy; realizing that the opinion expressed by the greatest number does not of necessity mean the competent opinion of all of the people. (Laughter.)

You get the thought, and I thank you. (Laughter.)

I wish that larger numbers got the same thought. We are patriotic. We wave this banner and we cheer. Colonel Melish and I served in the same regiment in 1898. (Laughter.) He defended Ludlow, Kentucky, and I was defending the north banks of the Miami-Erie Canal in Dayton, Ohio. (Laughter.) Our names do not appear upon the pension rolls. We are willing, but recalcitrant Senators and unreasonable Congressmen, have declared that the Colonel and I could not come within the benefits; but, what a patriotic citizen I am after all. I have no doubt that

traveling abroad, shown some beautiful bits of architecture, I would probably say to you "Gentlemen, you ought to see Haynes' Distillery at Dayton, a yard or two from the drive." You ought to see Haynes' Distillery in Ohio, and I would make the eagle yell on every occasion, and properly, and completely insult the potentate under whose protection I was living, but you should observe my change of heart as I came within the shadow of the Goddess of Liberty in New York. I had a fur-lined overcoat, and everything else I had purchased abroad; being successful in getting past the customs officer, I immediately go to the auditor's office, and swear off of my taxes. The next day, being July 4, I would probably attend a banquet and make a patriotic speech. (Laughter.) "Let the people rule." What a lot of bunk we indulge in. Now and then, let us give true valuation; let us make an honest return of taxes — when the grand jury is apt to be in session (laughter), and thus prove our material patriotism, but enough of this thing. I leave you for a gentleman who is apt to have more to say that is to the point, a subject in which you are interested, and in which I am quite sure, indeed, will be well worth the time expended.

I do take a great deal of pleasure, my friends, in coming to this splendid city of Ohio, as I said a moment ago, that is the best in Ohio — after Dayton has been eliminated.

I am glad to come as a visiting neighbor and participate in the joys and festivities, adding in my meager way that which I am permitted to do to make your stay one of pleasure and joy and of long remembrance.

With regard to Dayton, Ohio, and as a citizen of Dayton, Ohio, I would indeed be ungracious if I did not take public opportunity to express the gratitude of the fine people of that community for the immeasurable and inexpressible generosity manifested a year or two ago, at the time of great distress on our part. Had it not been for kindly, splendid neighbors, such as this grand city contains, Dayton, Ohio, perhaps to-night would not even be heard of. I think Dayton is the best city, in the best state, in the best nation, in which to live.

We are noted for the cash register, the Wright Brothers aeroplane, the Delco starter, and Haynes full quarts for \$3.35 (laughter), and more real appreciation was manifested when I

mentioned the latter; and, for your kindly indulgence and immeasurable courtesy extended to me, listening during this, perhaps an hour of incoherent nonsense, I thank you and thank you again, and bid you Godspeed and a pleasant and a happy good night. (Applause.)

The Toastmaster: I have neither time nor inclination to say what I ought to say to the gentleman from Dayton, for his kindly remarks about me. Rather, they are about what I expected. I only want to say that we claim him as a part of Cincinnati, and that when we find it out of the zoo, we bag it (Baggott) (laughter).

I have the pleasure of introducing to you, as the next speaker, a gentleman who is of national repute. He was a banker prior to his election to the United States Senate, having established the first bank in the state of Oklahoma, some 20 odd years ago.

Senator Owen has one quality that marks him as a great man. He has given 20 years of close study to the subject of credits, and during the discussion prior to the announcement of the Federal Reserve Act he sought information from every section of the country in order to obtain the views of representative and business interests from one part of the country to another. Senator Owen says that he is not in the habit of delivering speeches that are set speeches. When we asked him for his notes, for an expectant public, and for publication in the morning newspapers, he said he did not indulge in canned speeches. You know it is a characteristic of the American people, that we "Eat what we can, and what we cannot, we can." So this is not a canned speech, and I am sure it will be an enjoyable one to all of us. I have the pleasure of introducing the Senator from Oklahoma, Senator Owen.

THE FEDERAL RESERVE ACT AND ITS RELATION TO INVESTMENT BANKING

HON. ROBERT L. OWEN

Senator from Oklahoma, Muskogee

President Franklin, Mr. Toastmaster, Gentlemen of the Investment Bankers Association: When I had the honor of being invited to address you, I regarded it as an opportunity which I ought not to decline.

You represent one of the very great forces in building up America, and in making America what it is destined soon to be — the financial leader of the world. (Applause.)

Many men have claimed to be the authors of the Federal Reserve Act. The fact is, the final details of the Federal Reserve Act were developed out of the experience and advice of many men. The great principle of that Act (the issuance of currency on the basis of adequate collateral other than gold, such as commercial bills) was first put into effect, probably by Great Britain, in the panic of 1866, when, by ministerial permit, the Bank of England (which, though owned by private stockholders, is, to all intents and purposes, a governmental institution) was permitted to issue legal tender notes, against other securities than gold, in violation of the terms of the English Act of 1849. Because of the exigency and need of immediate currency, the ministerial powers gave a permit to use the printing press and manufacture legal tender notes against commercial bills. This device abated the panic within 24 hours. At least three times this has occurred in England.

The Great German Empire improved that experience, and gave authority by statute law to the Reichbank, some thirty odd years ago to issue legal tender notes (money) against commercial bills, of a certain qualified class, under a penalty of a five per cent interest charge, payable to the Government. The 5 per cent penalty was intended to serve as a means for automatic retirement of such notes, (money) and in that way to serve as protection against inflation.

The principle of the Federal Reserve Act, which is of first importance to this country, is the fact that commercial bills of a qualified class can be used by the Federal Reserve Banks as

a basis of issuing money (federal reserve notes) to the business men of the United States, to any extent business exigence may at any time require. In the old days, under our National Bank Act, we concentrated the reserves of the national banks of the country, first in 40 odd reserve cities, then, in three central reserve cities, then, at last they were pyramided in New York, where the New York banks were compelled to rely for currency upon themselves and upon each other; where those who wanted currency in the country at large relied upon New York to furnish that currency, out of a 25 per cent reserve which was not really available, because when the reserve reached 25 per cent the bank could no longer lend money. There was built up in New York a reliance on stocks and bonds, used as collateral for call loans, and these call loans grew into very many millions. When any sudden demand came for currency that alarmed the banks of the country, they had no remedy whatever as the margin above the reserve was always small. The need for a bank to strengthen itself led each bank to call upon the borrowers to make good their call loans. The borrowers under such circumstances had no recourse, except to sell their securities upon a falling market caused by constriction of credits due to non-availability of currency in large part.

Under conditions of that kind, we have been visited with a number of severe panics, 1872, 1884, 1893, 1907, not to mention many stringencies and threatened panics. These panics have swept this country like fire. They have made the business men in this country tremble for fear, and have prevented tens of thousands, and hundreds of thousands of men from engaging in legitimate manufacturing and productive enterprises, in legitimate commerce, in other avenues, which would be well warranted if there had been any stability in our financial system, any stability in the credit market or if there had been always abundant money available.

Under the American system, men are compelled of necessity to extend credit, and do extend credit, and under such conditions where there is no stability in the credit market, it was easy to destroy confidence, and we have talked dogmatically and automatically in the past about our troubles being due to *loss of confidence*, and have sometimes forgotten that our loss of confidence was almost unavoidable, because the banks of the country owed ten times as much money as the banks had in their vaults and no place was

available for a quick supply of abundant currency. If ten per cent of their depositors at any one time were to call for the payment of the deposits in cash for hoarding due to loss of confidence, the banks would have nothing with which to transact current business or to pay a deposit.

It was no wonder that the banks of this country were in a state of continual trepidation, whenever there was a threat of a panic or a disturbance of confidence.

I believe for us that period is gone and gone forever. (Applause.) Because now we can instantly supply all the currency our business life will ever need.

Under our present system commercial bills can be used as a basis upon which to issue money, Federal Reserve notes. These notes are not bank notes. The banks of this country tried hard to have the law make them bank notes. They are notes of the United States, with the taxing power behind them, and as good money as the world has ever seen. The first security behind these notes is the credit of a man who takes his note to his local bank, and is worthy of a loan; second, the member bank that endorses that note; third, the Federal Reserve Bank that takes that note with its gold and large reserves of coin; fourth, all of the resources of all the banks of this country who are members of that system, the double liability of all the stockholders of all those banks under the double liability clause; and finally, the taxing power of the people of the United States. There never was in the history of the world a security of more stability and dignity.

But what has that to do with the investment banking business? It has very much to do with your business. It gives for the first time in this country an assured *stability in business* and in bonds. It brings into activity every human agency available in our country. It brings employment to every man willing to labor. It brings a condition, not of temporary prosperity, but of continued stable business prosperity in this country which cannot be broken.

Any individual who indulges in unsound business methods will of necessity go into a personal liquidation, as he merits, but, in the future no man will have the ground cut from under his feet by a sudden panic, such as swept over this country in October, 1907, when nearly every bank from the Atlantic to the Pacific closed its doors from Saturday to Monday night. The American

people had the wit even in that exigency to manufacture an artificial currency in the form of clearing house certificates; in the form of cashier checks, pay checks, certificates of deposit, and numerous other forms which availed at the time, as a medium of currency. The people of the country had the good sense to stand by the banks and not to demand the payment of their deposits in cash except in rare instances; but the exigency will never arise again in this country, and you will find that those of you who deal in municipal securities will have a widening field, a more stable market — I call your attention to the stability of the interest rate since the Federal Reserve Act went into effect,—practically no fluctuation. For a few days only has the interest rate in New York ever fluctuated; the rate is comparatively stable now, without the fluctuation of a single point and the reason of that is perfectly plain — because those who have a right to ask credit, those who have a right to demand currency, can upon proper security obtain all the currency that they need. When men can get currency, and know they can get currency — then they do not want it.

The United States is entering into a new era, and in my judgment the world is entering into a new era. Since the Federal Reserve Act went into effect, the bankers of this country have gained in deposits over six thousand millions and that is a sum so gigantic that the human imagination can hardly conceive it. It is a little bit difficult to ascertain where all that line of deposits comes from. A part of it is undoubtedly due to money which was hoarded in this country and which was gradually put back into employment under conditions that the holders of it believed they were safe in placing it in the bank. A part of it is due to drawing out of stockings of the cowardly depositor who was unwilling to temporarily trust the bank. Some ninety odd millions of dollars have come through the postal savings system by which the Government puts itself behind the depositors and redeposits that fund with the bank. A part of the Postal Savings were hoarded funds. A part of these is due to the bringing into this country of European gold. A very large part of it, in my opinion, is due to the extension of new credit by the bankers of this country which re-appears as deposits. In my judgment the Federal Reserve Act has a very far-reaching effect upon your

business as investment bankers. The stabilizing of finance and commerce and industry means that the public will become buyers of your securities in gradually increasing degree to the extent of their means. It means that the spirit of confidence which has been established in this country will be useful to you in your field because it will enlarge your clientage, and enable you to place your securities in a constantly widening circle. It has occurred to me that while you are organizing your committees, looking after your interests, that you would do well to have a committee charged with the duty of looking after national legislation, so that suggestions might be made from your body, this Association, of a useful character in helping to frame the laws of this country. In writing the Federal Reserve Act infinite pains were taken to get the point of view of the bankers of this country. I, myself, spent days listening to the arguments, personally and directly, with the leading bankers of the United States, in New York, Philadelphia, Chicago and St. Louis. I invited their confidence, and imposed upon them the duty of instructing me as far as possible, as Chairman of the Committee on Banking and Currency of the Senate, as to their particular views.

A man who goes to the Congress has very much to learn and must learn from the people who are in position to know, and every thoughtful legislator studies diligently to be advised by other men and does not imagine he knows it all. On one occasion I recall that a young man named Abrams represented the Quapaw Indians, as a delegate, in Washington and he was appealing to Senator Dawes of Massachusetts, Chairman of the Indian Committee, that he might permit the Indians to allot their lands in severalty and pass a law to that effect. He insisted strenuously upon his presentation of the case and Senator Dawes would not agree to it on the ground the Quapaws were not sufficiently intelligent. Finally he turned to Senator Dawes and said, "Senator Dawes, do you think I have not sense enough to run my own business?"

Senator Dawes replied, "Oh, no, I was only speaking of the average Quapaw." Abrams said, "Senator, I am an average Quapaw."

Senator Dawes said, "Oh, no, Mr. Abrams, the Quapaws would not send an average man to represent them in Congress. They would send the smartest man they had."

Abrams replied, "Senator, you are mistaken. The Quapaws are just like the people of the United States; they never do send their smartest men to Congress." (Laughter.)

It is the part of wisdom that an organization such as this that is skilled in investment securities, that might have something to say of value in improving our financial condition, ought to find some means of expressing its opinion and doing it with intelligent directness in order that Congress may understand what is needed in this country and what should be done. One of the most important practical principles of government was put into the Federal Reserve Act by Congress, of which I will speak in a moment. We have had some merriment made of *the rule of the people* tonight by a good friend who has kindly and generously entertained us, but the people of the United States comprise every shade of opinion, political, religious, intellectual,— every point of view, and the great body of opinion of the people and "the rule of the people" of this country is the sheet-anchor of our personal and property safety. The rule of the few in any country is always of serious danger to ultimate stability of government. It is the rule of the few in Europe that has caused the European War. They made a mistake somewhere — we do not know precisely where, and it is not for us to say. It is perfectly obvious that the rule of the few fell down in the administration of government in Europe, and now the people are being driven at each other's throats, destroying human life on a scale so gigantic as to shock the entire world. We have in this country a working political minority system, which is at variance with the fundamental principle upon which every one of our state governments was founded. Every state government is founded, as a fundamental principle, upon the principle that the *sovereignty resides in the people*. They have a right to alter, amend, or change that government whenever it fails to meet the requirements of giving protection to life, liberty and the pursuit of happiness. (Applause.) And yet we have only in a comparatively small degree written upon our statutes the mechanism by which that sovereignty shall be exercised without undue or sinister or corrupt influence. In the Senate of the United States I could not pass a Corrupt Practices Act because of the hostility of a few in that body. The rules of the Senate adopted in 1806 gives an unlimited right

of debate to any garrulous debater, and thus a veto power to any man who is unwilling to allow a bill to pass.

So a corrupt Practices Prevention Act was talked to death by a minority of the Senators who would not let it be considered by the Senate, after the bill had passed the House of Representatives and the Senate Committee and was on the Calendar and duly before the Senate for action.

It is minority rule in the Senate and it is *bad* minority rule. (Laughter.) It should not be endured in a free republic. The Senate of the United States should have the right by a majority vote to determine when it will dispose of any pending question. It has not that right now, under its own rules. I say, you should have a committee to represent your interests, about the mechanism by which you shall have your prayers properly heard and administered if they are right, and they must involve a system by which the majority will be empowered to exercise government. In the Federal Reserve Act you will find a *preferential ballot system*, to which I have referred, and I call your attention to it as citizens of the United States and I would call your attention to it as members of the Investment Bankers Association because I regard it as of fundamental national importance. The preferential ballot *automatically coheres a majority*, and no nomination under it can be made *except by a majority* and no election can be made *except by a majority*.

An organized group of politicians on the inside of either party, *at present*, is able to dictate nominations by the plurality minority system, dividing and conquering the majority of their own party first, and then dividing and conquering the unorganized majority of all the citizens. The politicians of both parties thus quite commonly keep the people from enjoying the privilege of majority rule. This matter can only be understood by giving it attention; it can only be understood by giving it thoughtful attention; it can only be thoroughly understood by putting the microscope on it, and unless some man calls the attention of the country to these vital principles of government it will be long before we perfect our system of honest government. I call your attention to the fact that the Civil War in the United States was due to a defect in the structure of government in this country. We had a Constitution which was not amendable; we had a Supreme Court

which was not recallable, and the Dred Scott decision was passed nationalizing slavery. We could not change the decision, recall the Court, or amend the constitution except by war. We fought it out at the cannon's mouth as the only available political remedy. We should not let that catastrophe recur in the United States, and I call your attention to the fact that we are face to face with an interesting struggle between the Organized Labor and Organized Capital in this country and we have no *mechanism* that is fully adequate to thoroughly meet these differences, if they arise upon Constitutional questions. We cannot amend the Constitution except by war or almost unanimous consent.

You talk of Stability, you talk of Conservatism,—important as these things are to investment bankers, let me tell you that if you quietly sit still and permit the structure of government to be so defective as to be unable to deal with these great questions which will arise, you put your capital in jeopardy, and you put your lives in jeopardy as well.

Ordinarily, I do not attend banquets, they do not agree with my digestion, but I thought it worth while to come here and present my respects to you because I have a great regard and admiration for the men who pass judgment upon every business enterprise that arises in this country, finance these great enterprises from which our cities have sprung, from which our public utilities arise,— the electric lighting of cities, the water supplying of cities, the building of street railways, the providing of all the conveniences of modern life under these organized forms. You are the men who handle these securities, and under your houses your engineers pass upon the practicability of these enterprises, and America's advance is due in large measure to your wise, your patriotic, your intelligent activities. While you discharge your functions as investment bankers, do not forget that you are also Americans, and let no petty party divisions blind your eyes to the great welfare of our magnificent Republic! In the Senate we have always said that party lines stop at tidewater. *Party lines stop at tide-water.* I ask you, as thoughtful Americans, if it is not wiser that party lines should stop at tide-water? Shall we, because of domestic division, because of difference of opinion with regard to domestic policy permit one party to be used against another party by foreign interests? The Senate has laid down a wise doctrine

which I think political parties should follow, that party lines should not cross tide-water; that in dealing with foreign questions we should deal with foreign questions as Americans, and as Americans alone! (Applause.) No matter who may be in control of the Senate; no matter who may be our President; let us all, whatever he be, whether a Democrat or a Republican,— let us see to it that we do not divide in dealing with foreign questions, except where we may justly divide as Americans, considering it from an American standpoint.

I thank you for the courtesy of your attention. I find I have already trespassed more than I should have done upon your time.

Your interests are not affected by the Federal Reserve Act alone; your interests are also affected and will be affected by the other Acts which have passed. Your interests will be affected in a very important way by the Rural Credits Act, because the Rural Credits Act is going to bring together the need of those who are cultivating the soil of America, with those that have spare money to invest. The Farm Loan bonds which will be issued, based upon landed estates, under the safeguard of Federal management, will cut a very important figure in enlarging your own field.

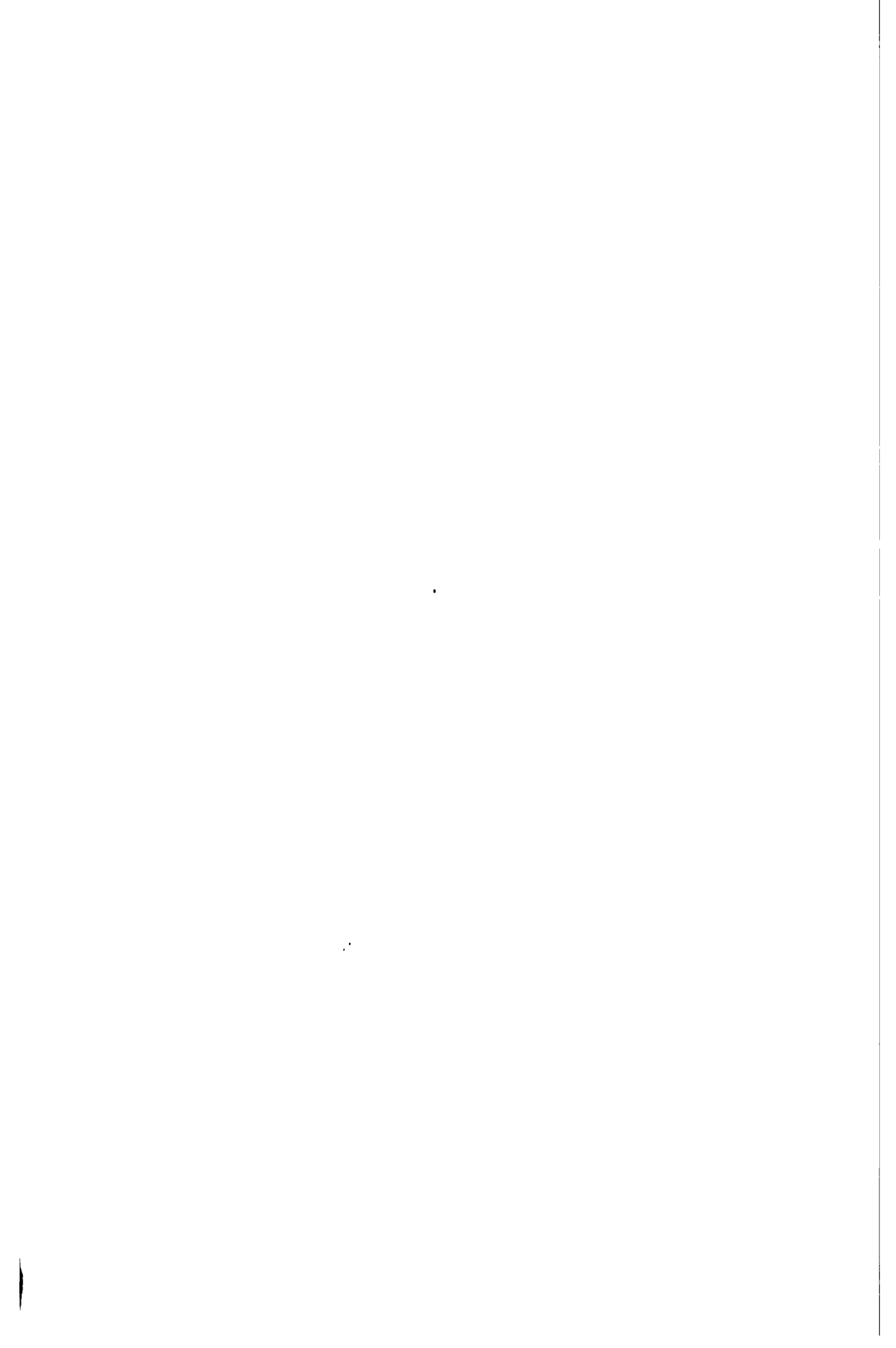
It will stimulate agriculture in this country and enable the people to buy a much larger volume of securities than ever before. In Germany they say that the average wheat yield is 36 bushels an acre; in the United States it is between 12 and 14 bushels per acre. Our people do not seem to excel in tilling the soil; they do not seem to use a proper kind or a proper quantity of fertilizers to the soil. The United States has now by Act authorized \$15,000,000 for making nitrates, and when the nitrates are not needed for the manufacture of powder they will be used for fertilizers. The United States by the Smith-Lever Act is sending a demonstrator of agriculture to every single county in the United States and many counties are supplementing that work with their own funds. They are teaching scientific agriculture; they are teaching scientific husbandry; they are teaching scientific horticulture and economies of the farm, too. Those things mean a greater purchasing power on the part of the people of the United States; it means a larger field for you, because of this larger purchasing power. I therefore commend your friendly interest on behalf of the Rural Credit System when these bonds

are issued. I think you should take a friendly hand and place those bonds with the view to build up this country as a patriotic service and above all the service of building up America to make it what it should be. Incidentally you will serve your own interests thereby.

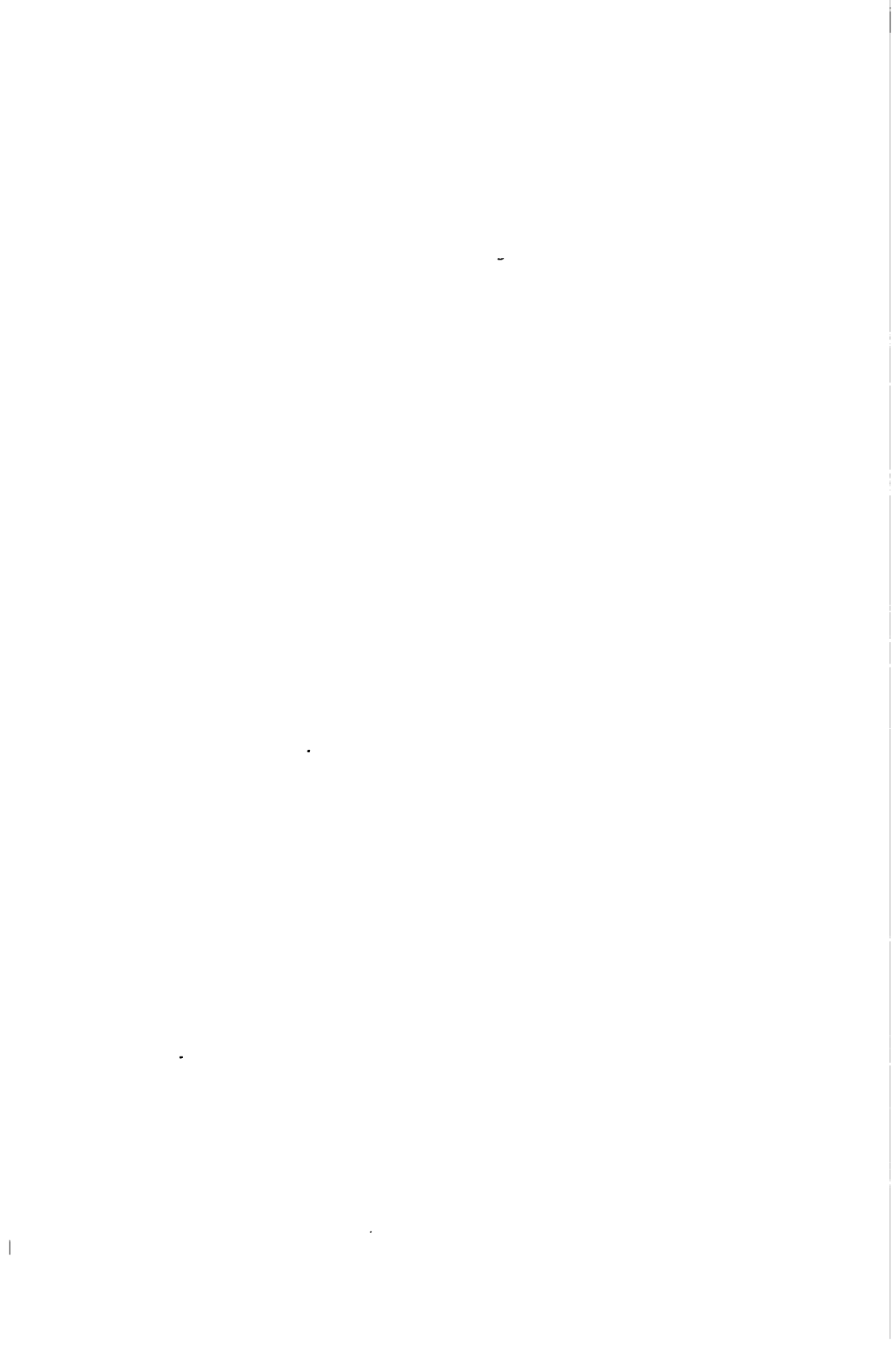
I want to thank you for your courtesy. I am glad of the opportunity of meeting you face to face, and I appreciate the hospitality of this occasion. Mr. President, and Gentlemen of the Investment Bankers Association, I wish you great success in your business enterprises; I wish you may fulfill the highest destiny in helping build up America and promote your own private fortunes, your own happiness, and I wish you Godspeed and farewell! (Applause.)

The Toastmaster: That ends our addresses for the evening.

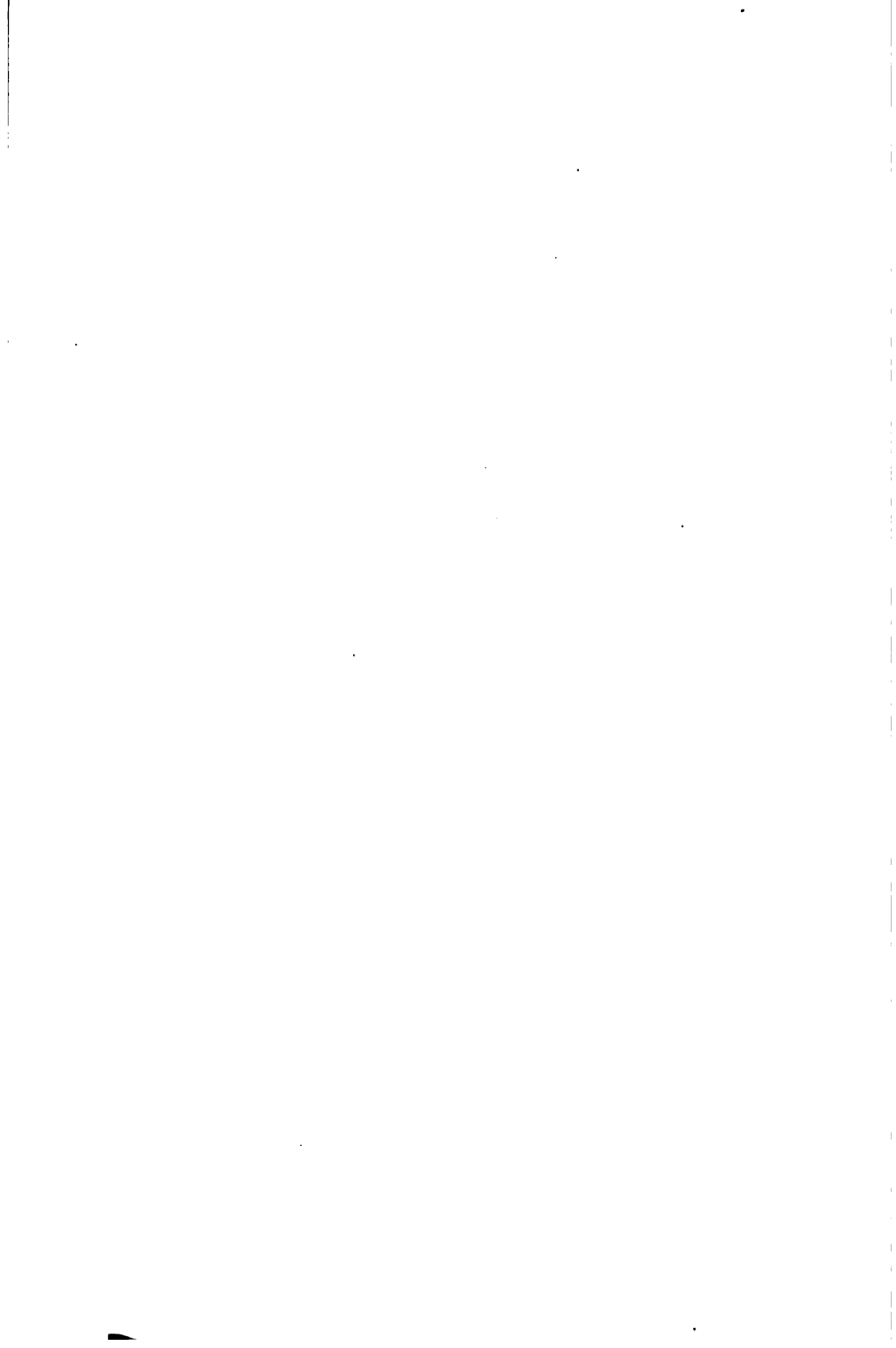
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APPENDIX



Constitution *and* By-Laws
of the
Investment Bankers Association
of America



Constitution *and* By-Laws *of the* Investment Bankers Association *of America*

PREAMBLE

In order to promote the general welfare and influence of investment banks, or bankers, likewise banking institutions operating bond departments, and to secure uniformity of action, both in legislation and methods of handling securities, together with the practical benefits to be derived from personal acquaintance, and for the discussion of subjects of importance to the banking and commercial interests of the country which affect the investing public, and for protection against loss by crime or through wilful and irresponsible dealers in investment securities, and to surround the offerings of its members with greater safeguards, we submit the following Constitution and By-Laws for the Investment Bankers Association of America.

CONSTITUTION

ARTICLE I

Section 1. This Association shall be entitled:

“THE INVESTMENT BANKERS ASSOCIATION OF AMERICA.”

ARTICLE II

Section 1. Any national or state bank, trust company, private banker, banking firm, or corporation, in good standing, having a paid-in capital of \$50,000.00 or more, and which makes a practice of buying bonds or investment stocks, and publicly offers the same, as dealers therein, shall be eligible to membership in this Association, and upon their election to membership, and the payment of annual dues, and membership fee, as hereinafter

provided by the By-Laws, shall be entitled to one delegate to the annual meetings of the Association, and any member may be expelled from this Association upon a vote of two-thirds of the Board of Governors.

Section 2. Branch offices not incorporated may send one delegate to the meetings of the Association, but such firm shall have but one vote. Branch offices operating as a separate corporation shall pay the regular dues, and enjoy the privileges of full membership.

Section 3. Each delegate representing a member shall be an officer or director or trustee of the institution represented, or a manager of the bond or investment department, or a member of a banking firm, or a private banker, or the manager of the investment department thereof, or a manager of a branch office.

Section 4. Delegates shall vote in person; and no delegate shall be entitled to more than one vote.

Section 5. All votes shall be viva voce, unless otherwise ordered, except as hereinafter provided; any delegate may demand a division of the house.

ARTICLE III

Section 1. The administration of the affairs of this Association shall be vested in a President, five Vice-Presidents, a Secretary, a Treasurer, and a Board of Governors of twenty-four members, eight of whom shall hold office for one year, eight for two years, and eight for three years, and thereafter, eight shall be chosen at each annual meeting for a period of three years, or until his successor is chosen or appointed, and the first President of this Association, at the expiration of his term of office, shall become and remain a member of the Board of Governors, with full voting power, so long as he shall continue in the bond business; and the retiring president of the Association shall become an ex-officio member of the Board of Governors for one year immediately following his term of office; but no member of the Board of Governors, having served a full term of three years, shall be eligible for re-election until after the expiration of one year, except as above provided.

Section 2. The President shall preside at all meetings of the Association and of the Board of Governors, countersign all

certificates of membership, and may appoint such committees from time to time as may be required for the conduct of the business.

Section 3. In the absence of the President, the Vice-Presidents shall perform the duties of the office of President in the order in which they are chosen.

Section 4. The Secretary's office shall be the principal place of business of this Association. The Secretary shall conduct all general correspondence of the Association, and shall have charge of all files and records, and shall keep the general books of account, and shall be the custodian of the Seal of the Association. The Secretary shall keep an accurate list of the members of this Association, and shall notify all new members when elected. He shall collect all dues and other moneys due the Association, and shall immediately turn all moneys collected over to the Treasurer.

The Secretary shall keep a record of the proceedings of all meetings of the Association, and the Board of Governors, and perform such other duties as may from time to time be required by the President or the Board of Governors.

Section 5. The Treasurer shall receive and receipt for all moneys collected by the Association or its officers, and shall disburse the same upon the presentation of proper voucher checks issued and signed by the Secretary or Assistant Secretary and countersigned by the President or Vice-President. He shall keep a correct record of and account for all moneys coming into his hands, and of all disbursements, and shall make a report thereof to the annual meeting of the Association, and to the Board of Governors when and as often as they may require. He shall give bond to the Association in such sum as the Board of Governors may require. He shall deposit the funds of the Association in his custody in some National or State Bank, or Trust Company, subject to the approval of the Boards of Governors.

Section 6. The members of the Board of Governors shall, as soon as may be after their election, divide themselves by ballot into three classes of equal number, designated as First, Second, and Third Classes, of which the First Class shall remain in office one year, the Second Class two years, and the Third Class three years, and on each annual election members of the Board of Governors shall be elected for a term of three years to fill the

vacancies of the retiring class; subject to the provisions of Section 1 of this Article.

Section 7. The Board of Governors shall determine the time and place of holding its meetings, and of the regular annual meeting of the Association, and shall have power to fill all vacancies until the next annual meeting, and to adopt all necessary rules for governing the business of this Association, and may name such appointive offices as may be necessary.

Section 8. The Board of Governors may be called together at any time by the Secretary, at the request of five members thereof, or by the President, and shall be vested with full power to transact such business as may have been authorized by this Association, and shall make annual appropriation for carrying on the work of the Committees. Any eight members of the Board shall constitute a quorum.

ARTICLE IV

Section 1. The expenses of the Board of Governors of the Association, as well as of all officers and committees, in carrying out the business to be done by them, shall be provided for by annual dues of the members of the Association, provided, however, that the Board of Governors or any Committee shall have no authority to incur or contract, on behalf of this Association, any liability whatever beyond the amount of the annual dues and moneys actually collected.

ARTICLE V

Section 1. Resolutions or subjects for discussion (excepting those referring to points of order or matters of courtesy) must be filed with the Secretary at least ten days before the Annual Convention, and submitted to the Board of Governors at its regular meeting preceding the convention, but any person desiring to submit any resolution or business in open convention may do so upon a majority vote of the delegates present.

ARTICLE VI

Section 1. Any member failing to pay membership fee, or dues for a period of three months after receiving due notice thereof shall be considered as having withdrawn from the Association,

but may be reinstated upon application to the Secretary and payment of all dues in arrears, with the consent of the Chairman of the Membership Committee.

ARTICLE VII

Section 1. The fiscal year of this Association shall commence September first and end August thirty-first, and the Association shall meet, and the annual meeting shall be held within ninety days thereafter for the election of officers and members of the Board of Governors. The Association may also be called together at any time by order of the Board of Governors.

Section 2. At all annual meetings the members of the Association may be represented by one delegate each. At these annual meetings there shall be presented for discussion such topics as will be of interest to its members, together with the reports of the officers and various standing committees, and such addresses as the Board of Governors may approve.

Section 3. The Board of Governors in each year shall select the regular ticket of officers to be voted on at the next annual meeting; written notice whereof shall be given to each member of the Association at least thirty days prior to such election. No other nominations shall be voted on unless in writing, signed by at least ten members of the Association and filed with the Secretary's office at least ten days prior to such election. Written notice of such further nominations shall be given by the Secretary prior to such annual meeting. As soon as such further nominations are filed it shall be the duty of the Secretary to give prompt notice in writing to each member of the Association.

ARTICLE VIII

Section 1. This Constitution may be amended at the First Annual Meeting by resolution submitted in writing at one session and passed at a subsequent session, but thereafter this Constitution can only be amended by written notice served on the Secretary at least thirty days before any annual meeting, and then submitted in writing to the next Annual Convention of this Association, and passed by a two-thirds vote of all delegates present.

ARTICLE IX

Section 1. Immediately upon organizing and at each annual meeting, the President shall appoint the following Committees, to consist of not less than five and not more than nine members, viz.:

Committee on Membership.

Committee on Legislation.

Committee on Finance.

Committee on Auditing.

Committee on Program for Annual Meeting.

Committee on Publicity and Domestic Relations.

Committee on Revision and Amendment of Constitution and By-Laws.

BY-LAWS

First: All members of the Association enrolled on or before the first day of January, 1913, shall be charter members and after that date there shall be a membership fee of \$100.00. The fiscal year of the Association shall commence on September 1st of each year, and the annual dues shall be due and payable on that date.

Second: The membership of this Association shall be divided into three classes, as follows:

Class "A" to consist of members doing a strictly local business. The dues of this Class shall be \$50.00 per annum.

Class "B" to consist of those members who may occasionally make original issues of securities and who do not restrict their operations to the immediate territory in which they are located. The dues of this Class shall be \$100.00 per annum.

Class "C" to consist of those members who habitually make original issues of securities and who transact an international or country wide business. The dues of this Class shall be \$150.00 per annum.

Each member of the Association shall designate to the Secretary the class in which he desires to be included, but the Board of Governors or a Committee thereof, in its sole discretion, shall have the right to reclassify any member.

The Secretary of the Association shall keep a record showing the classification of each member, but such record shall be con-

fidential as to the classification and shall not be published by the Association.

Branch offices of members employing separate capital specifically set aside therefor shall be considered as main offices.

Third: The Officers, Board of Governors, and Committees chosen or appointed at the first meeting of this Association shall hold office until the annual meeting of this Association in 1913.

Fourth: All applications for membership shall be approved by the Membership Committee and certified to the Secretary, who shall notify the applicants of their election. Upon receipt of the membership fee and of the first year's annual dues they shall be enrolled as a regular member and a certificate of membership shall be issued, signed by the Secretary and the President, or by one of the Vice-Presidents.

Fifth: No member of this Association shall use the name of this Association on letter heads or other advertising matter on penalty of a forfeiture of his membership, upon evidence being furnished to the satisfaction of the Membership Committee.

Sixth: The main office of this Association shall be determined by the Board of Governors and shall be located in some one of the principal cities: New York, Chicago, Boston, Philadelphia, Pittsburg, Buffalo, Baltimore, Cleveland, Cincinnati, Toledo, Detroit, St. Louis, Indianapolis, Minneapolis, Milwaukee, Kansas City, or Denver.

Seventh: Robert's Rules of Order shall govern the deliberations of the Association.

Eighth: These By-Laws may be repealed or amended at any meeting of the Association upon a majority vote of all delegates present.



MEMBERSHIP
OF THE
Investment Bankers Association
of America

December 31, 1916



MEMBERSHIP LIST

ALBANY

- *Harris, Forbes & Co. 33 State St.
 *Trask & Co., Spencer 74 Chapel St.

ATLANTA

- Hillyer, Wm. Hurd Trust Co. Ga. Bldg.
 Robinson-Humphrey-Wardlaw Co. 3rd Nat'l Bldg.

BALTIMORE

- Baker, Watts & Co. Calvert & German Sts.
 Baltimore Trust Co. 25 E. Baltimore St.
 *Brooke, Stokes & Co. Calvert Bldg.
 Brown & Sons, Alexander Baltimore & Calvert Sts.
 *Cassatt & Co. Arcade Bldg.
 Citizens Company, Inc. Fidelity Bldg.
 Colston, Boyce & Co. 3 No. Calvert St.
 Continental Co. Continental Trust Bldg.
 Daly & Co., Owen 23 South St.
 Equitable Trust Company Calvert & Fayette Sts.
 *Estabrook & Co. 131 E. German St.
 Fidelity Trust Company Charles & Lexington Sts.
 Fisher & Son, J. Harmanus 7 South St.
 Garrett & Sons, Robert Continental Building
 Hambleton & Co. 10 South Calvert St.
 Howard & Co., John D. South & German Sts.
 Lanahan & Co., W. W. Calvert Building
 *Leach & Co., A. B. Maryland Trust Bldg.
 Mackubin, Goodrich & Co. 110 East German St.
 Mercantile Trust & Deposit Co. Calvert & German Sts.
 Middendorf, Williams & Co. 129 E. German St.
 *Miller & Co. Maryland Trust Bldg.
 *National City Company Munsey Bldg.
 Nelson, Cook & Co. Calvert & German Sts.
 Scott & Son, Townsend 209 E. Fayette St.
 State Bank of Maryland Baltimore & Commerce Sts.
 Strother, Brogden & Co. Calvert & German Sts.
 Union Trust Company of Maryland
 Wilson & Co., J. S., Jr. Calvert Bldg.

*Branch Office.

BANGOR, ME.

Merrill Trust Company

BOSTON

Baker, Ayling & Young	50 Congress St.
Blodget & Co.	60 State St.
*Bodell & Co.	35 Congress St.
*Bonbright & Co., Inc., Wm. P.	55 Congress St.
*Bond & Goodwin	35 Congress St.
*Brown Brothers & Co.	60 State St.
Burgess, Lang & Co.	50 State St.
*Burr & Co., George H.	35 Congress St.
*Campbell, Heath & Co.	50 Congress St.
*Clark & Co., E. W.	19 Congress St.
Coffin & Burr, Inc.	60 State St.
Conant & Co., A. B.	95 Milk St.
Curtis & Company, John D.	50 Congress St.
Curtis & Sanger	33 Congress St.
Day & Co., R. L.	35 Congress St.
Denison & Co., C. E.	4 Post Office Sq.
Estabrook & Co.	15 State St.
Farnsworth & Co., E. M.	24 Milk St.
Fernald & Co., George A.	67 Milk St.
*Goldman, Sachs & Co.	60 Congress St.
*Grant & Co., R. M.	50 Congress St.
Harris, Forbes & Co.	35 Federal St.
*Hayden, Stone & Co.	87 Milk St.
Hornblower & Weeks	60 Congress St.
Jackson & Curtis	19 Congress St.
*Kidder, Peabody & Co.	115 Devonshire St.
*Leach & Co., A. B.	4 Post Office Sq.
Lee, Higginson & Co.	44 State St.
Marshall & Company, Inc.	70 State St.
Merrill, Oldham & Company	35 Congress St.
*Millett, Roe & Hagen	15 Congress St.
Moors & Cabot	111 Devonshire St.
Old Colony Trust Company	17 Court St.
Parker & Company, Inc., C. D.	78 Devonshire St.
Parkinson & Burr	53 State St.
*Read & Co., Wm. A.	19 Congress St.
Richardson, Hill & Co.	50 Congress St.
Rollins & Sons, E. H.	200 Devonshire St.
Stone & Webster	147 Milk St.
*Trask & Co., Spencer	50 Congress St.
Tucker, Anthony & Co.	53 State St.
Warner, Tucker & Co.	50 Congress St.
*White, Weld & Co.	111 Devonshire St.
*Branch Office.	

BUFFALO

*Duquesne Bond Corporation	Marine National Bldg.
*Geiger-Jones Company	Marine National Bldg.
*Harris, Forbes & Co.	Ellicott Sq. Bldg.
*Langley & Co., W. C.	Fidelity Building
*Leach & Co., A. B.	Ellicott Square
Steele, John T.	Fidelity Bldg.
*White, Weld & Co.	Marine National Bldg.

CANTON

Geiger-Jones Company	300 N. Market St.
United Security Company	Courtland Bldg.

CHICAGO

Allerton, Greene & King	208 S. La Salle St.
American Bond & Mortgage Co.	160 W. Jackson St.
Ames, Emerich & Co.	105 S. La Salle St.
Babcock, Rushton & Co.	137 S. La Salle St.
Baker & Co., Alfred L.	141 S. La Salle St.
*Bechtel & Co., George M.	38 S. Dearborn St.
Bolger, Mosser & Willaman	29 S. La Salle St.
*Bonbright & Co., Inc., Wm. P.	209 S. La Salle St.
*Bond & Goodwin	230 S. La Salle St.
Breed, Elliott & Harrison	105 S. La Salle St.
Brewer & Company, F. A.	208 S. La Salle St.
Bullard, Hetherington & Co.	105 S. La Salle St.
Burnham & Co., John	39 S. La Salle St.
*Burr & Co., George H.	209 S. La Salle St.
Byllesby & Co., H. M.	208 S. La Salle St.
*Campbell, Heath & Co.	208 S. La Salle St.
Central Trust Company of Illinois	125 W. Monroe St.
Chapman & Co., P. W.	126 W. Monroe St.
Chicago Savings Bank & Trust Co.	7 W. Madison St.
Childs & Company, C. F.	208 S. La Salle St.
*Clark & Co., E. W.	209 S. La Salle St.
*Compton Company, William R.	105 S. La Salle St.
Continental and Commercial Trust and Savings Bank	208 S. La Salle St.
Corkill & Co.	108 S. La Salle St.
Counselman & Co.	112 W. Adams St.
Cowan & Co., Kennett	209 S. La Salle St.
*Cummings, Prudden & Co.	11 S. La Salle St.
*Curtis & Sanger	129 S. La Salle St.
Devitt, Tremble & Co.	38 S. Dearborn St.
Elston & Company	39 S. La Salle St.
Emery, Peck & Rockwood	208 S. La Salle St.
*Estabrook & Co.	209 S. La Salle St.

*Branch Office.

*Field, Richards & Co.	208 S. La Salle St.
First Trust & Savings Bank	68 W. Monroe St.
Fort Dearborn Trust & Savings Bank	76 W. Monroe St.
*Goldman, Sachs & Co.	187 S. La Salle St.
Gorrell & Co., Warren	208 S. La Salle St.
*Grant & Co., R. M.	111 W. Monroe St.
Greenebaum Sons Bank & Trust Co.	11 S. La Salle St.
Halsey, Stuart & Co.	209 S. La Salle St.
Harris Trust & Savings Bank	115 W. Monroe St.
*Harris, Winthrop & Co.	209 S. La Salle St.
Hitchcock & Co., F. B.	39 S. La Salle St.
*Hodenpyl, Hardy & Co.	38 S. Dearborn St.
Holtz & Co., H. T.	39 S. La Salle St.
*Hornblower & Weeks	37 S. La Salle St.
Howard, Simmons & Co.	Westminster Bldg.
Illinois Trust & Savings Bank	233 S. La Salle St.
*Imbrie & Co., Wm. Morris	208 S. La Salle St.
*Kean, Taylor & Co.	105 S. La Salle St.
Kidder & Co., Charles S.	108 S. La Salle St.
*Kissel, Kinnicutt & Co.	209 S. La Salle St.
*Leach & Co., A. B.	105 S. La Salle St.
*Lee, Higginson & Co.	209 S. La Salle St.
Lobdell & Co., Edwin L.	209 S. La Salle St.
Lyon, Gary & Co.	208 S. La Salle St.
*Mayer & Co., J. C.	209 S. La Salle St.
McCoy & Company	105 S. La Salle St.
McNear & Company, C. W.	76 W. Monroe St.
*Megargel & Co.	105 S. La Salle St.
Merchants Loan & Trust Company	112 W. Adams St.
National Bank of the Republic	39 S. La Salle St.
National City Bank of Chicago	105 S. Dearborn St.
Northern Trust Company	50 S. La Salle St.
Nuveen & Co., John	38 S. Dearborn St.
Peabody, Houghteling & Co.	10 S. La Salle St.
Peoples Trust & Savings Bank	138 S. Michigan Blvd.
Poole & Co., Clark L.	110 S. Dearborn St.
Porter, Fishback & Co.	76 W. Monroe St.
Powell, Garard & Co.	39 S. La Salle St.
*Read & Co., Wm. A.	234 S. La Salle St.
*Rollins & Sons, E. H.	234 S. La Salle St.
Russell, Brewster & Co.	116 W. Adams St.
*Salomon & Co., William	105 S. La Salle St.
Souders & Co., W. G.	208 S. La Salle St.
Speer & Sons Company, H. C.	38 S. Dearborn St.
*Staats Co., Wm. R.	38 S. Dearborn St.
*Stacy & Braun	208 S. La Salle St.
State Bank of Chicago	135 W. Washington St.
*Branch Office.	

*Stone & Webster	38 S. Dearborn St.
Straus & Co., S. W.	6 N. Clark St.
*Trask & Co., Spencer	208 S. La Salle St.
Ulen & Co.	38 S. Dearborn St.
Union Trust Company	7 S. Dearborn St.
*Weil, Roth & Co.	209 S. La Salle St.
*White & Co., Inc., J. G.	38 S. Dearborn St.
*White, Weld & Co.	209 S. La Salle St.
Wilsey & Co.	111 W. Monroe St.
Wollenberger & Co.	109 S. La Salle St.
Yard, Otis & Taylor	105 S. La Salle St.

CINCINNATI

Atlas National Bank	320 Walnut St.
Aub & Co., A. E.	Union Trust Bldg.
*Breed, Elliott & Harrison	320 Walnut St.
Central Trust & Safe Deposit Co.	115 E. 5th St.
Channer & Sawyer	Union Trust Bldg.
*Compton Company, William R.	Union Trust Bldg.
Feibel-Elischak Company	Union Central Bldg.
Field, Richards & Co.	Union Central Bldg.
Fifth-Third National Bank	4th & Vine Sts.
Fillmore & Co., W. H.	St. Paul Bldg.
Friedlander, Edgar	First National Bldg.
Hutton & Co., W. E.	First National Bldg.
Irwin, Ballman & Co.	First National Bldg.
Mayer & Co., J. C.	318 Walnut St.
Provident Savings Bank & Trust Co.	7th & Vine Sts.
Seasongood & Mayer	4th & Vine Sts.
*Spitzer & Co., Sidney	Traction Bldg.
*Stacy & Braun	Mercantile Library Bldg.
*Tillotson & Wolcott Company	First Nat'l. Bldg.
Union Savings Bank & Trust Co.	Fourth & Walnut Sts.
Weil, Roth & Co.	139 E. Fourth St.

CLEVELAND

Bonbright-Herrick Co.	Cuyahoga Bldg.
Borton & Borton	Leader Bldg.
Cleveland Trust Company	Euclid Av. & E. 9th St.
*Denison & Co., C. E.	Guardian Bldg.
Dietz, William G.	Citizens Bldg.
*Field, Richards & Co.	Citizens Bldg.
First National Bank	Euclid Ave.
*Geiger-Jones Company	Citizens Bldg.
Guardian Savings & Trust Co.	322 Euclid Ave.
*Harris, Forbes & Co.	Cuyahoga Bldg.
Hayden, Miller & Co.	Citizens Bldg.
Murch Co., Maynard H.	Leader-News Bldg.

*Branch Office.

Otis & Co.	Cuyahoga Bldg.
Tillotson & Wolcott Company	Guardian Bldg.
*White, Weld & Co.	Citizens Bldg.

COLORADO SPRINGS

*Otis & Co.	127 E. Pikes Peak Ave.
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COLUMBUS, OHIO

Meeker, Claude	8 E. Broad St.
Ohio National Bank	
*Otis & Co.	Spahr Bldg.

DAVENPORT, IOWA

Bechtel & Co., George M.	
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DAYTON, OHIO

*Geiger-Jones Company	1051 Reibald Annex
Loy, Bunstine & Loy	City National Bldg.

DENVER

Boettcher, Porter & Co.	Gas & Electric Bldg.
Bosworth & Co., Edwin M.	First National Bldg.
Bosworth, Chanute & Co.	Century Bldg.
Gregg, Whitehead & Co.	First National Bldg.
International Trust Company	
Keeler Brothers	First National Bldg.
*Otis & Co.	Equitable Bldg.
*Rollins & Sons, E. H.	International Trust Bldg.
Sweet, Causey, Foster & Co.	Equitable Bldg.
Wilson, Cranmer & Company	International Trust Bldg.
Wright & Co., James N.	First National Bldg.

DETROIT

*Allerton, Greene & King	Dime Bank Bldg.
*Bolger, Mosser & Willaman	Dime Bank Bldg.
*Bonbright & Co., Inc., Wm. P.	119 Griswold St.
Detroit Trust Company	
*Devitt, Tremble & Co.	Ford Bldg.
*Field, Richards & Co.	Dime Bank Bldg.
First and Old Detroit National Bank	Ford Bldg.
*Halsey, Stuart & Co.	Ford Bldg.
*Hornblower & Weeks	Penobscot Bldg.
Keane, Higbie & Co.	Penobscot Bldg.
Moss & Co., W. E.	Union Trust Bldg.
Nicol, Ford & Co., Inc.	Ford Bldg.
Peoples State Bank	

*Branch Office.

Security Trust Company . . . Griswold & Ft. Wayne Sts.
 *Souders & Co., W. G. . . . Dime Bank Bldg.
 Union Trust Company
 Watling, Lerchen & Co. . . . Peoples State Bank Bldg.

ERIE, PA.

*Graham & Co. Penn Bldg.

GRAND RAPIDS, MICH.

Howe, Snow, Corrigan & Bertles . . Michigan Trust Bldg.
 Kusterer, Hilliker & Perkins . . Michigan Trust Bldg.

HARTFORD, CONN.

Barnes & Co., Roy T. H. 77 Pearl St.
 *Bertron, Griscom & Co. 18 Asylum St.
 *Dick, Gregory & Co. 36 Pearl St.
 *Estabrook & Co. 36 Pearl St.
 *Lee, Higginson & Co. 36 Pearl St.
 *Lisman & Co., F. J. 18 Asylum St.
 *Rhoades & Company 36 Pearl St.

INDIANAPOLIS

*Breed, Elliott & Harrison . . . Fletcher-American Bldg.
 Fletcher-American National Bank
 Fletcher Savings & Trust Co.

KANSAS CITY, MO.

Commerce Trust Company
 Fidelity Trust Company
 Gary Investment Co., Theo . . . Commerce Trust Bldg.
 Prescott & Snider First National Bldg.
 Sutherlin & Co., J. R. Commerce Building
 Wright Investment Co., H. P. . . . 923 Baltimore Ave.

LANCASTER, PA.

*Bertron, Griscom & Co. Woolworth Bldg.

LOS ANGELES

Blankenhorn-Hunter Co
 *Blyth, Witter & Co. Trust & Savings Bldg.
 Moulton & Company, R. H. . . . Title Insurance Bldg.
 *National City Company Hibernian Bldg.
 Perrin, Drake & Riley, Inc. . . . 210 W. 7th St.
 *Rollins & Sons, E. H. Security Bldg.
 Staats Co., Wm. R. 105 W. 4th St.
 Torrance, Marshall & Company . . . 111 W. 4th St.

*Branch Office.

LOUISVILLE

United States Trust Company . . . S. W. Cor. 5th & Main Sts.
Willson & Co., James C. 217 S. Fifth St.

MADISON, WIS.

Boyd Company, Joseph M. 2 S. Carroll St.
Madison Bond Company Gay Bldg.

MILWAUKEE

DeWolf Company, John E. 97 Wisconsin St.
Edgar, Ricker & Co. Free Press Bldg.
First National Bank
Fox, Hoyt & Co. First National Bldg.
*Halsey, Stuart & Co. Railway Exchange
Second Ward Savings Bank
Wisconsin Trust Company

MINNEAPOLIS

*Bond & Goodwin N. Y. Life Bldg.
Eastman Co., William W. McKnight Bldg.
*Kalman, Matteson & Wood Plymouth Bldg.
Minneapolis Trust Company
Minnesota Loan & Trust Co. Marquette Ave.
Phelps-Eastman Company McKnight Bldg.
Stevens-Chapman Company McKnight Bldg.
Wells-Dickey Co. McKnight Bldg.

MONTREAL

*Ames & Co., A. E. Transportation Bldg.
*Dominion Securities Corporation, Ltd. Canada Life Bldg.
Royal Securities Company, Ltd. 164 St. James St.
*Wood, Gundy & Company Dominion Express Bldg.

NEWARK, N. J.

Fidelity Trust Company

NEW BEDFORD, MASS.

*Tucker, Anthony & Co. 557 Pleasant St.

NEW HAVEN

*Bertron, Griscom & Co. 26 Howe St.

NEW ORLEANS

*Bertron, Griscom & Co. 208 Carondelet St.
Hibernia Bank & Trust Co.
Interstate Trust & Banking Co.
Mortgage Securities Company Whitney-Central Bldg.
Whitney-Central Trust & Savings Bank
*Branch Office.

NEW YORK CITY

Aldred & Company	24 Exchange Pl.
*Bachman & Co., H. F.	14 Wall St.
Barstow & Co., Inc., W. S.	50 Pine St.
Bayne, Hine & Co.	55 Wall St.
Bernhard, Scholle & Co.	14 Wall St.
Bertron, Griscom & Co.	40 Wall St.
Bickmore & Co., A. H.	111 Broadway
Bigelow & Company	25 Pine St.
Blair & Co.	24 Broad St.
*Blodget & Co.	30 Pine St.
*Bodell & Co.	111 Broadway
Bonbright & Co., Inc., Wm. P.	14 Wall St.
Bond & Goodwin	111 Broadway
Breitung & Co., Ltd.	11 Pine St.
*Brooke, Stokes & Co.	120 Broadway
Brown Brothers & Co.	59 Wall St.
*Burgess, Lang & Co.	55 Wall St.
Burr & Co., George H.	Equitable Bldg.
*Byllesby & Co., H. M.	111 Broadway
Callaway, Fish & Co.	37 Wall St.
Campbell, Heath & Co.	5 Nassau St.
*Chapman & Co., P. W.	Pine & William Sts.
Chatham & Phenix National Bank	192 Broadway
Clark, Dodge & Co.	51 Wall St.
*Coffin & Burr, Inc.	61 Broadway
Coffin & Company	44 Pine St.
Coggeshall & Hicks	128 Broadway
Coler & Co., W. N.	43 Cedar St.
Colgate & Co., Jas. B.	36 Wall St.
Colgate, Parker & Co.	2 Wall St.
*Compton Company, William R.	14 Wall St.
Coombs & Co., E. F.	120 Broadway
*Cowan & Co., Kennett	25 Broad St.
*Cummings, Prudden & Co.	111 Broadway
*Curtis & Company, John D.	55 Wall St.
*Curtis & Sanger	49 Wall St.
Dick, Gregory & Co.	25 Broad St.
Doherty & Co., Henry L.	60 Wall St.
*Duquesne Bond Corporation	Singer Bldg.
Eastman, Dillon & Co.	71 Broadway
*Edwards & Sons, A. G.	38 Wall St.
Electric Bond & Share Company	71 Broadway
Engineering Securities Corporation	37 Wall St.
Equitable Trust Company of New York	37 Wall St.
*Estabrook & Co.	24 Broad St.

*Branch Office.

Federal Utilities, Inc.	60 Broadway
Field, Richards & Co.	100 Broadway
Fisk & Sons, Harvey	62 Cedar St.
Goldman, Sachs & Co.	60 Wall St.
Grant & Co., R. M.	31 Nassau St.
Guaranty Trust Company of New York	140 Broadway
Hallgarten & Co.	5 Nassau St.
*Hambleton & Co.	43 Exchange Pl.
Harris, Forbes & Co.	56 William St.
Harris, Winthrop & Co.	15 Wall St.
Hatch & Co., Frederic H.	30 Broad St.
Hayden, Stone & Co.	25 Broad St.
Hemphill, White & Chamberlain	37 Wall St.
Herrick & Bennett	66 Broadway
Hodenpyl, Hardy & Co.	14 Wall St.
*Hornblower & Weeks	42 Broadway
*Hutton & Co., W. E.	60 Broadway
Imbrie & Co., Wm. Morris	61 Broadway
*Jackson & Curtis	43 Exchange Pl.
Jones & Co., Chas. H.	20 Broad St.
Kean, Taylor & Co.	5 Nassau St.
Kidder & Co., A. M.	5 Nassau St.
Kidder, Peabody & Co.	17 Wall St.
Kissel, Kinnicutt & Co.	14 Wall St.
Knauth, Nachod & Kuhne	120 Broadway
Kountze Brothers	141 Broadway
Kuhn, Loeb & Co.	52 William St.
Ladd & Wood	7 Wall St.
Ladenburg, Thalman & Co.	25 Broad St.
Langley & Co., W. C.	115 Broadway
Leach & Co., A. B.	62 Cedar St.
*Lee, Higginson & Co.	43 Exchange Pl.
Lisman & Co., F. J.	61 Broadway
Low, Dixon & Co.	37 Wall St.
Ludwig & Crane	61 Broadway
Mabon & Co.	45 Wall St.
Markoe, Morgan & Co.	120 Broadway
Megargel & Co.	35 Pine St.
Merrill, Lynch & Co.	7 Wall St.
Meyer & Co., Eugene, Jr.	14 Wall St.
Miller & Co.	29 Broadway
Millett, Roe & Hagen	152 William St.
*Montgomery, Clothier & Tyler	14 Wall St.
Morgan & Co., J. P.	23 Wall St.
National City Company	55 Wall St.
*Newburger, Henderson & Loeb	100 Broadway
Nickerson, John, Jr.	61 Broadway
*Parkinson & Burr	7 Wall St.
*Branch Office.	

*Penington, Colket & Co.	115 Broadway
Potter, Choate & Prentice	55 Wall St.
Pouch & Company	14 Wall St.
Proctor & Borden	27 Pine St.
Read & Co., Wm. A.	28 Nassau St.
Redmond & Co.	33 Pine St.
Remick, Hodges & Co.	14 Wall St.
Rhoades & Company	37 Wall St.
Robinson & Company	26 Exchange Pl.
*Rollins & Sons, E. H.	43 Exchange Pl.
*Russell, Brewster & Co.	111 Broadway
Salomon & Co., William	25 Broad St.
Seligman & Co., J. & W.	1 William St.
Smith & Co., W. E. R.	20 Broad St.
Speyer & Co.	24 Pine St.
*Stone & Webster	120 Broadway
*Straus & Co., S. W.	150 Broadway
Sutro Bros. & Co.	120 Broadway
Swartwout & Appenzellar	44 Pine St.
*Tillotson & Wolcott Company	14 Wall St.
Trask & Co., Spencer	25 Broad St.
*Tucker, Anthony & Co.	60 Broadway
Turnure & Co., Lawrence	64 Wall St.
United States Mortgage & Trust Co	55 Cedar St.
Walbridge & Co., H. D.	14 Wall St.
Watkins, John H.	7 Wall St.
*Weil, Roth & Co.	20 Broad St.
White & Co., Inc.	11 Pine St.
White & Co., Inc., J. G.	43 Exchange Place
White, Weld & Co.	14 Wall St.
Whitney & Sons, H. N.	Mills Bldg.
Williams, Troth & Coleman	60 Wall St.
Winslow, Lanier & Co.	59 Cedar St.
*Wood, Gundy & Company	14 Wall St.
Wood, Struthers & Co.	37 Wall St.
Zimmerman & Forshay	11 Wall St.

OKLAHOMA CITY

Edwards, R. J.	State National Bank Bldg.
Gilbert, George I.	Insurance Bldg.
Honnold, C. Edgar	State National Bank Bldg.
McMahon, A. J.	Insurance Bldg.

PASADENA

Blankenhorn-Hunter Co.	210 E. Colorado St.
*Staats Co., Wm. R.	65 S. Raymond Ave.
*Branch Office.	

PHILADELPHIA

Bachman & Co., H. F.	1512 Chestnut St.
*Baker, Ayling & Young	Land-Title Bldg.
Barclay, Moore & Co.	123 S. Broad St.
Barney & Co., Chas. D.	122 S. Fourth St.
Battles & Company	Independence Square
*Bertron, Griscom & Co.	Land-Title Bldg.
Bioren & Co.	314 Chestnut St.
*Bonbright & Co., Inc., Wm. P.	437 Chestnut St.
Brooke, Stokes & Co.	200 S. 15th St.
*Brown Brothers & Co.	4th & Chestnut St.
*Burr & Co., George H.	421 Chestnut St.
*Campbell, Heath & Co.	Lafayette Bldg.
Cassatt & Co.	Commercial Trust Bldg.
Chandler & Company, Inc.	1336 Chestnut St.
Clark & Co., E. W.	321 Chestnut St.
*Devitt, Tremble & Co.	Morris Bldg.
Drexel & Company	5th & Chestnut Sts.
Elkins, Morris & Co.	Land-Title Bldg.
Ervin & Company	Drexel Bldg.
Frazier & Company	132 S. 15th St.
Freeman & Co., M. M.	421 Chestnut St.
Fuqua & Co., W. F.	Land-Title Bldg.
Glendinning & Co., Robert	400 Chestnut St.
Goodall, Wister & Company	1421 Chestnut St.
Graham & Co.	435 Chestnut St.
*Harris, Forbes & Co.	Real Estate Trust Bldg.
Harrison & Co., Chas. C., Jr.	Lafayette Bldg.
Henry & West	1417 Chestnut St.
Kane & Co., Edward V.	1421 Chestnut St.
*Leach & Co., A. B.	115 S. Fourth St.
*Lisman & Co., F. J.	Stock Exchange Bldg.
Mellor & Petry	16 S. Broad St.
Montgomery, Clothier & Tyler	133 S. Fourth St.
Morris Brothers	1421 Chestnut St.
*National City Company	1421 Chestnut St.
Newbold's Son & Co., W. H.	511 Chestnut St.
Newburger, Henderson & Loeb	1410 Chestnut St.
Paul & Co.	1421 Chestnut St.
Penington, Colket & Co.	608 Chestnut St.
*Read & Co., Wm. A.	1421 Chestnut St.
Reilly, Brock & Co.	306 Chestnut St.
*Rollins & Sons, E. H.	1421 Chestnut St.
Smith & Co., Edward B.	Broad & Chestnut Sts.
Steel, Jones & Co.	Lafayette Bldg.
Stinson & Company, R. M.	North American Bldg.

*Branch Office.

Stokes, E. Lowber 104 S. Fifth St.
 Sullivan Brothers & Co. Real Estate Trust Bldg.
 Whelen & Co., Townsend 505 Chestnut St.
 *Wright & Co., James N. 1411 Walnut St.
 Wurts, Dulles & Co. 125 S. Fourth St.

PITTSBURGH

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 *Clark & Co., E. W. Commonwealth Bldg.
 Colonial Trust Company 317 Fourth Ave.
 Duquesne Bond Corporation 223 Fourth Ave.
 Gordon & Co. Union Bank Bldg.
 *Graham & Co. Peoples Bank Bldg.
 *Harris, Forbes & Co. Commonwealth Bldg.
 Holmes, Bulkley & Wardrop Union Bank Bldg.
 Mellon National Bank 514 Smithfield St.
 Moore, Leonard & Lynch Frick Bldg.
 Union Trust Company 337 Fourth Ave.

PITTSFIELD, MASS.

*Swartwout & Appenzellar

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 Fidelity Trust Company
 Gilman & Co., Chas. H. 186 Middle St.
 *Lee, Higginson & Co. 184 Middle St.
 Payson & Co., H. M. 93 Exchange Pl.

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 *Lee, Higginson & Co. Turkshead Bldg.
 Stranahan & Co. Turkshead Bldg.

READING, PA.

*Clark & Co., E. W. Colonial Trust Bldg.
 *Graham & Co. Colonial Trust Bldg.

RICHMOND, VA.

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 *Branch Office.

ROCHESTER

Greene, Myron W. Wilder Bldg.

ST. LOUIS

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 *Burr & Co., George H. Third National Bldg.
 Compton Company, William R. 408 Olive St.
 Davis & Co., A. J. Security Bldg.
 Edwards & Sons, A. G. 412 Olive St.
 Francis, Bro. & Co. 214 N. Fourth St.
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 Little & Hays Investment Co. 303 N. Fourth St.
 Mercantile Trust Company
 Mississippi Valley Trust Company 4th & Pine Sts.
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 Orthwein, Walter E. Rialto Bldg.
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 Stifel, Nicolaus, Parsons Investment Co. 207 N. Broadway
 Walker & Co., G. H. 307 N. Fourth St.
 Whitaker & Co. 300 N. Fourth St.

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 Kalman, Matteson & Wood Pioneer Bldg.
 *Wells-Dickey Co. Pioneer Bldg.
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Jarratt & Co., J. E. Bedell Bldg.

SAN DIEGO

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 Blyth, Witter & Co. Merchants Exchange Bldg.
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 H. A. Cleaver, Devitt, Tremble & Company, Chicago.
 W. A. Durst, Minnesota Loan & Trust Company, Minneapolis.

INDEX



INDEX

<i>Addresses:</i>	PAGE
Baggott, Roland G	228
Bartlett, Dudley	41
Compton, William R	173
Cushman, Charles F	160
Freeman, W. W	122
Hines, Walker D	185
Mathis, Mrs. G. H	129
Morris, Richard L	181
Owen, Robert L	238
President's	17
Sisson, F. H	204
Welcome	14
Advertising	136
Agricultural Credits, Report	103
Agricultural Credits Committee, Members	279
Annual Dues	28
"Ask Dad, He Knows"	228
Association Policies	18
Auditor's Report	30
Baggott, Roland G., Address	228
Baker, Wm. G., Report	150
Baker, Wm. G., Portrait	60
Banquet	223
Bartlett, Dudley, Address	41
Blue Sky Legislation	64
Blunt, John E., Jr., Report	177
Blunt, John E., Jr., Portrait	28
Board of Governors' Meetings	23
Bondholders, Foreign Council	38
Bond Reading, Report	95

Bonds:

Agricultural	103
Irrigation	207
Municipal	150
Public Service	105
Railroad	177
Real Estate	91
Reclamation	60
Timber	58
Bulletin Service	25
By-Laws	258

Caldwell, George B., Portrait	196
Chamberlain, Lawrence, Report	95
Chamberlain, Lawrence, Portrait	176
Commercial Museum, Philadelphia	41
Commission Regulation	18
Committees, Members of	279, 280, 281, 282

Committee Reports:

Agricultural Credits	103
Constitution and By-Laws	34
Educational	95
Finance	30
Foreign Relations	35
General Counsel	64
Irrigation Securities	207
Legislative	64
Membership	33
Municipal	150
Nominating	209
Publicity	136
Public Service Securities	105
Railroad Securities	177
Real Estate Securities	91
Reclamation Securities	60
Secretary's	23
Taxation	76
Timber Securities	58
Treasurer's	28

Compton, William R., Address	173
Compton, William R., Report	103
Compton, William R., Portrait	160
Constitution and By-Laws	253
Constitution and By-Laws, Committee Members	279
Constitution and By-Laws, Report	34
Convertible Securities	194
Council of Foreign Bondholders	38
Counsel Report	64
Course in Bond Reading	95
Cushman, Charles F., Address	160
Decisions, Public Utility	105
Depreciation	177-194
Dinkins, Lynn H., Portrait	
Disbursements and Receipts, Association	24, 28, 30
Disclaimer	7
<i>Discussions:</i>	
Educational	98-102
Foreign Relations	38-57
Legislative	71-75
Municipal Securities	159-176
Publicity	139-149
Public Service Securities	116-121
Railroad Securities	181, 2, 3, 4-193-206
Real Estate Securities	92-94
Taxation	77-88
Diversification in Farming	129
Drainage Securities (See Reclamation)	60
Drake, Daniel K., Portrait	176
Dues, Annual	28
Edgar, David A., Portrait	142
Educational Committee, Members	279
Educational Report	95
Equipment Trusts (See Railroads)	
Evolution in Public Utilities	122
Farm Loan Law	103
Federal Farm Loan Law	103
Federal Incorporation Railroads	20

Federal Reserve Law	238
Fenton, Frederick R., Report	23
Fenton, Frederick R., Portrait	70
Fentress, Calvin, Report	58
Field, Reamy Eugene, Portrait	116
Finance Committee Members	279
Finance Committee Report	30
Financial Condition	30
Financial Report	30
Foreign Bondholders Council	38
Foreign Relations, Report	35
Foreign Relations, Discussion	37-57
Foreign Relations Library	35-41
Foreign Relations, Members	279
Franklin, Lewis B., Address	17
Franklin, Lewis B., Portrait	Frontispiece
Freeman, W. W., Address	122
Fuller, Samuel L., Report	136
General Counsel, Report	64
Gilman, Charles H., Portrait	116
Governors	9
Governors, Terms of Office	11
Hallowell, John W., Portrait	176
Hayden, Warren S., Address	79
Hayden, Warren S., Portrait	160
Headquarters	26
Hines, Walker D., Address	185
Hodges, George W., Address	82
Hodges, George W., Portrait	98
Hoyt, Allen G., Report	64
Hoyt, Allen G., Portrait	16
I. B. A. of A. Bulletin	25
Income of Association	24, 28, 30
Income Tax Law	67
Industrial Committee, Members	280
Incorporation of Railroads	20
Invitations	211

Irrigation Securities, Report	207
Irrigation Securities Committee Members	279
Kendrick, George W., III, Portrait	176
<i>Legislation:</i>	
Blue Sky	64
Income Tax	67
Municipal	66
Taxation	79, 82, 85
Legislative Committee Members	280
Legislative Committee, Report	64
Lerchen, William G., Portrait	116
Lumber (See Timber)	58
Mail, Association	24
Mail Handled	24
Massachusetts Tax Situation	85
Mathis, Mrs. G. H., Address	129
Mayor Puchta, Address of	14
McNear, Charles W., Portrait	142
Melish, William B., Remarks	224, 237
Members, List of	261
Membership Classes	24, 31, 258
Membership Committee, Members	280
Membership Gains	23
Membership Losses	23
Membership, Number	23, 31
Membership Report	23, 33
Misleading Advertising	136
Model Municipal Securities Act	155
Morris, Richard L., Address	181
Morris, Richard L., Portrait	160
Municipal Securities Act (Model)	155
Municipal Securities Legislation	66
Municipal Securities Discussion	159-176
Municipal Securities Committee Members	280
Municipal Securities and Postal Savings	173
Municipal Securities, Report	150
Museum, Philadelphia Commercial	41

Needs and Opportunities, Railroad Situation	185
Needs of Railroad Situation	185
New York Tax Situation	82
Nominating Committee, Report	209
Officers and Governors	9
Ohio Tax Situation	79
Oldham, John E., Report	105
Oldham, John E., Portrait	98
Opportunities, Railroad Situation	185
Otis, Charles A., Report	91
Owen, Robert L., Address	238
Parsons, Lewis H., Portrait	196
Philadelphia Commercial Museum	41
Policies of Association	18
<i>Portraits:</i>	
Baker, William G., Jr	60
Blunt, John E., Jr	28
Caldwell, George B	196
Chamberlain, Lawrence	176
Compton, William R	160
Dinkins, Lynn H	98
Drake, Daniel K	176
Edgar, David A	142
Fenton, Frederick R	40
Field, Reamy Eugene	116
Franklin, Lewis B	Frontispiece
Gilman, Charles H	116
Hallowell, John W	176
Hayden, Warren S	160
Hodges, George W	98
Hoyt, Allen G	16
Kendrick, George W., III	176
Lerchen, William G	116
McNear, Charles W	142
Morris, Richard L	160
Oldham, John E	98
Parsons, Lewis H	196

Richmond, Stacy C	116
Smith, J. Sheppard	80
Stacy, Charles L.	142
Taylor, George H	160
Wendell, Barrett, Jr	40
White, Edwin	142
Wright, H. P	50
Wright, James N	98
Postal Savings and Municipal Securities	173
Prescott, John A., Report	207
Publicity Committee Members	281
Publicity Report	136
Public Service Securities Committee Members	281
Public Utilities, Evolution of	122
Public Service Securities Report	105
Public Utilities Reports, Annotated	105
Puchta, George, Address	14
Railroad Problems	19
Railroad Reports, Standard	181
Railroad Securities	70
Railroad Securities Committee Members	281
Railroad Securities Report	177
Railroad Securities Report Discussion	181
Railroad Situation	185
Real Estate Securities, Discussion	92-94
Real Estate Securities Committee Members	282
Real Estate Securities, Report	91
Receipts and Disbursements, Association	24, 28, 30
Reclamation Securities Committee Members	282
Reclamation Securities, Report	60
Reed and McCook, Report	64
Regulation, Commission	18
<i>Reports:</i>	
Agricultural Credits	103
Auditor's	30
Constitution and By-Laws	34
Educational	95

Finance	30
Foreign Relations	35
General Counsel	64
Irrigation Securities	207
Legislation	64
Membership	34
Municipal Securities	150
Nominating	209
Publicity	136
Public Service Securities	105
Railroad Securities	177
Real Estate Securities	91
Reclamation Securities	60
Secretary's	23
Taxation	76
Timber Securities	58
Treasurer's	28
Richmond, Stacy C., Portrait	116
Rosenthal, A. J., Address	38
Ross, William L., Report	76
Rural Credits, Report	103
Secretary's Report	23
<i>Securities:</i>	
Agricultural	103
Irrigation	207
Municipal	66, 150, 159, 173, 176
Public Service	105
Railroad	19, 70, 177, 180, 185
Real Estate	91, 92, 94
Reclamation	60
Timber	58
Sinking Funds	194
Sixth Annual Convention	211
Smith, J. Herndon, Report	28
Smith, J. Sheppard, Report	60
Smith, J. Sheppard, Portrait	80
Stacy, Charles L., Portrait	142
Standard Railroad Reports	181
Stuart, H. L., Report	33

Taxation:

Massachusetts	85
New York	82
Ohio	79
Taxation Committee Members	282
Taxation Report	76
Tax Levy Limits	160
Taylor, George H., Portrait	160
Taylor, George H., Report	30

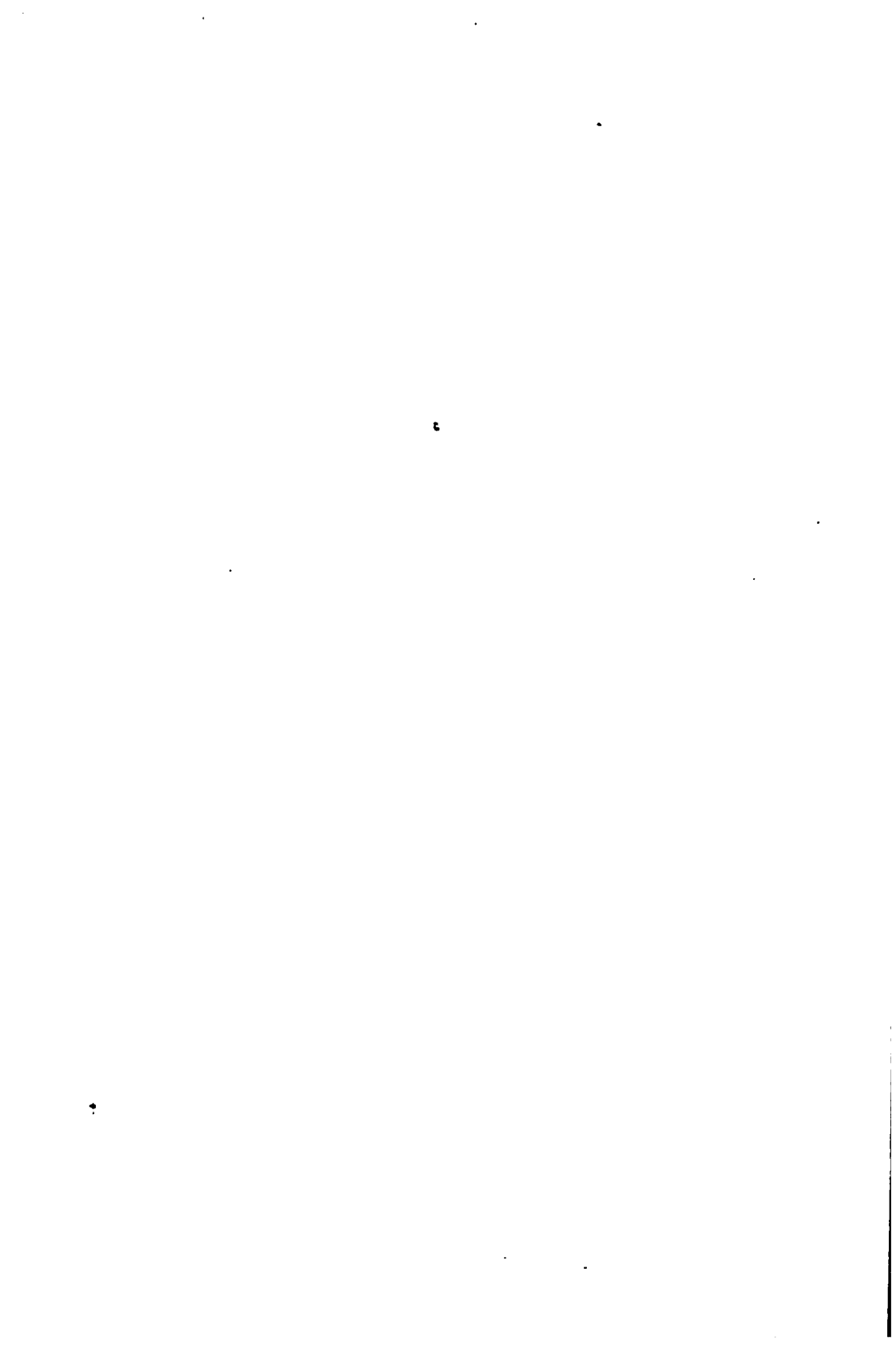
Telegrams:

American Bankers Association	223
Farm Mortgage Bankers Association of America	223
Timber Securities Committee Members	282
Timber Securities, Report	58
Toastmaster's Remarks	224, 237
Treasurer's Report	28

Utilities, Evolution in Public	122
Utilities, Public, Report	105

Welcome Address	14
Wendell, Barrett, Jr., Report	35
Wendell, Barrett, Jr., Portrait	40
White, Edwin, Portrait	142
Wright, H. P., Portrait	50
Wright, James N., Portrait	98





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